

736.14 VVW

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

CONTENTS

The International Crisis

Imperial Preference

China, Japan and Manchuria

The Results of the Round Table Conference

Reparations in Practice

The United States in the New Year

India : The Struggle with Congress

Great Britain : Tariff Reform

The Irish Free State :

*The General Election—The Shannon Muddle and Other
Matters*

Canada : The Railway Problem

Australia :

The Federal Elections—The Reduction of Interest

South Africa :

The Political Situation—The Battle of the Gold Standard

New Zealand :

*The Coalition—The New Financial Policy—The General
Election*

MARCH

MCMXXXII

NUMBER 86

Price 5/-



THE INTERNATIONAL CRISIS

I. A LULL IN THE STORM

IN contrast to the previous six months of hurricane, the last three have seen a lull in the storm. They have not been marked by any such world-shaking events as the Hoover Moratorium in June, Germany's "Black Monday" in July, the dramatic fall of the British Government in August, the sudden departure of England and other countries from the gold standard in September, and the amazing general election of October. There have even been some reassuring symptoms, which have led to a faint revival of confidence on the stock exchanges and to what is vaguely termed "a better feeling" in business. In America private hoarding seems to have been arrested, the President's financial measures have to some extent restored faith in the soundness of the banking system, the tone of Wall Street is more buoyant, despite the growth of unemployment, the persistent low levels of production and prices, a huge budget deficit and the threatened insolvency of New York, Chicago, and Philadelphia. In England, the prospect of a balanced budget, the steadiness of internal prices, the absence of currency inflation and of panic have gone some way towards dissipating the fears of immediate and general collapse in Europe that were entertained in the autumn. In Germany, the political situation has become noticeably more stable since Dr. Brüning has shown his determination to preserve order and to take drastic measures to improve the economic

The International Crisis

position. In France, the rapid growth of unemployment has brought home the truth that, despite her gold stocks and her comparative self-sufficiency, she is not immune from the depression. Though her growing difficulties are but another proof of the deepening of the crisis, they may eventually infuse a better understanding of the troubles of others and with it the beginnings of a more conciliatory spirit. All these items on the credit side of the balance sheet are worth faithfully recording, not only on account of their intrinsic value, which it is only too easy to over-estimate, but because they have lifted, if only slightly, the blanket of hopeless pessimism which was exercising a numbing influence upon every upward movement.

II. THE DECLINE OF TRADE

FOR all these pale rays of light, however, the needle of the economic barometer remains firmly set at "stormy." A glance at the debit side of the account shows that it is still overwhelming. None of the fundamental features of the crisis, political, monetary or commercial, has yet been radically dealt with. As a consequence, paralysis has continued to gain ground through the greater part of the world's economic system. Issues of capital are rapidly drying up. During the last quarter of 1931 they reached incredibly low figures in London and New York, neither of which lent a penny to any foreign country. The number of bankruptcies continued very high in Germany, Italy and the United States, and showed signs of sharp increase in France during the last few months. In spite of a large favourable commercial balance, the gold reserves of the Reichsbank continued to melt away. Commodity prices showed little sign of rising, though a tendency to stability during the last months of the year suggested the hope that they might now have touched bottom. Production indices still sagged slowly downwards. Dammed

The Decline of Trade

by artificial barriers growing almost weekly in number and variety, international trade shrank into ever narrower limits. As it shrank, the scramble to secure export trade at any cost became intensified, and the determination to prevent imports more desperate, especially in countries unable to borrow abroad whose trade balance remained their only asset for meeting their external obligations. Hence, in addition to tariffs, quotas, prohibitions and other purely commercial obstacles, the Governments of 13 countries in Europe and 8 countries in South America had by January forbidden the purchase of foreign currencies, except with the permission of their central banks or some other authority, which is rarely and capriciously granted. In central Europe "standstill," which is already the *mot d'ordre* for finance, will shortly be the fact in commerce also. Already we see the fantastic spectacle of Hungarian weavers unable to obtain sterling offering pigs in exchange for Lancashire yarns with which to keep their mills going and their people employed. The only logical consequence of State control over dealings in foreign exchange is its extension to all foreign commerce. The Brüning decrees have already obliterated many of the characteristic features of individualist economy in Germany. The creation of trading corporations on the Soviet model to handle all Germany's external trade seems to be an almost inevitable completion of the system, nor would it be particularly difficult to reconcile with German conceptions of the functions of Government. Indeed, those who can afford to look on current history with a philosophical eye may be disposed to wonder whether we are not already embarked upon a transitional voyage, with the shores of nineteenth-century individualism already fading into the past, and some unknown haven of well or badly "managed economy" awaiting us in the future.

But putting aside this interesting, if uninviting speculation, it is not difficult to sum up the net result of this internecine commercial warfare, which has proceeded from

The International Crisis

the complete derangement of the world's financial system. There are only three methods of effecting international payments—through gold, credit, or goods and services. No country, except France, Holland, Switzerland and the United States, has sufficient reserves to enable it to meet any substantial deficit on international payments, however temporary, by shipping gold. This method is therefore practically eliminated. The destruction of confidence has almost arrested the extension of credit by those countries which are in a position to furnish it. Moreover, existing debts, both public and private, have been multiplied to such an extent by the fall of prices that debtors, whether they be States or individuals, are prepared to make every effort to avoid assuming the burden of any further indebtedness. A farmer in eastern Europe now has to provide three times as much wheat to meet the interest on loans or mortgages as he needed a few years ago. In these circumstances credit has largely ceased to perform its commercial function, to the immense detriment of trade. There remains only payment in goods. If there were no tariff barriers in the creditor countries, no difficulty would arise. England became the greatest creditor country in the world by keeping an open market, in which all her debtors could sell their goods. This meant that she had a deficit in her visible trade balance, but a large surplus on her balance of payments. If, during the past five years, the debtors of France and the United States had been able to pay what they owed in goods, a great deal of the present trouble would have been avoided. But both France and the United States are highly protectionist countries by tradition. They would not lower their tariffs in order to admit their debtors' payments in kind for fear of upsetting their domestic production. As long as they were prepared to extend credit to debtor countries, no serious consequences followed, but from the time when they were no longer willing to lend, it became impossible to meet their claims in full except by heavy payments in gold. As they

The Decline of Trade

have now already received the great bulk of the gold available, most of their debtors have practically reached the position of being unable to pay at all.

Moreover, as the result of the slump in prices followed by the financial crisis, all countries owing money abroad—and that means the vast majority—being unable to use gold are seeking to preserve their balance of payments and their financial stability by paying their obligations in goods—that is to say, by exporting more than they import. Consequently they are endeavouring to stimulate exports and to limit imports. Germany, as the largest debtor, affords the outstanding example, and her special difficulties are described at length in another article in this number.* How is Germany to meet her external obligations? Her gold reserves are almost exhausted, she cannot obtain fresh credits, the markets for her goods are being steadily circumscribed. The nations to which she owes either reparations or private debts cannot hope to obtain the payment either of interest or capital as long as this state of affairs exists. Yet none of them is apparently disposed to take steps to facilitate her payments. The American tariff still stands as high as ever, France, Switzerland and Holland are imposing import quotas on various types of goods, and finally, Great Britain is busy building a tariff wall. The creditor countries are thus forcing Germany to insolvency. By protecting their home markets they are sacrificing their financial to what they believe to be their commercial interests.

But the plight of Germany is only some degrees worse than that of other debtor countries. As has been shown, there are many others desperately resorting to the same expedients—restrictions on foreign exchange, coupled with the attempt to increase exports and cut down imports—in order to obtain the means of facing their foreign debts and of safeguarding their monetary security. It is obvious that everybody cannot have a favourable trade balance

* See page 294.

The International Crisis

simultaneously. The result is that these measures largely defeat their own ends by greatly reducing the whole volume of international trade. The Economic Committee of the League of Nations calculated in January that the sum total of international commercial transactions had shrunk by no less than 40 per cent. in 1931 as compared with 1929. In other words, international trade is gradually coming to a standstill. The Committee was unable to discover any remedy as long as the financial crisis persisted. As they put it, they were "for the moment unable to formulate useful suggestions for trade policy, until the necessary solutions have been found in the field of international settlements and suitable alleviations and adjustments have been effected to relieve the financial tension."*

III. THE FINANCIAL DILEMMA

WHAT then are the financial measures that are available to restore the situation? They are by no means obscure, and may be broadly summarised under two headings—the suspension or cancellation of debts and the revival of international lending. Unfortunately, neither of these operations is of a purely technical character. Both are dependent on the solution of political problems of the first magnitude. As has been frequently emphasised in *THE ROUND TABLE*, the world's elaborate financial and commercial machinery has been constructed on international lines. The more its smooth working is interfered with by artificial obstructions aimed at achieving purely national aims, political or economic, the slower the rhythm of industry and commerce becomes and the more quickly does general prosperity decay. We are now witnessing the most lurid illustration so far afforded of this elementary truth. In the words of the foreign bankers who have just consented

* League of Nations Economic Committee. Report to the Council, January 20, 1932.

The Financial Dilemma

at Berlin to prolong Germany's private credits for another year, "the present extreme crisis must bring home to all peoples of the world the fact that all countries grow poor together. The obverse is as true. All countries grow rich together. A lightening of burdens and a greater freedom of trade, enriching one country, will enrich all." Unhappily it does not require many sentences to prove that this lesson is still far from having been learnt, and that the application of the financial remedies, which are now generally recognised as imperative by all informed persons, is being fatally blocked by the want of co-operation and understanding between nations.

It is pretty universally agreed that the existence of reparation payments is one of the elements that have played a big part in bringing about the present crisis. It is certainly agreed by every competent person who has examined the situation that Germany cannot continue payments now or for some considerable time to come. It is generally accepted that cancellation of all reparation payments would lift a load and a fear from Europe, and would in all probability set the hands of the economic barometer moving once more upwards. In these circumstances, it might be thought that cancellation would appeal even to the French as an obvious step towards curing their own troubles, which are thickening every day. They are quite well aware that the receipts from reparations entered on the credit side of their budget will never be paid into their Treasury this year or next or the year after. But for political reasons, which will be considered in a moment, the French Government stands out like adamant for the maintenance of the Young Plan, which has been in its coffin for months. Its corpse is already disintegrating, but an extraordinary value is still attached to its skeleton.

A similar situation exists as regards the war debts owing to the United States. The President, acting on the advice of American bankers and economists, whose view is probably almost unanimous, proclaimed his famous one-year mora-

The International Crisis

torium in June. When Congress assembled in December, it grudgingly approved it, but vented its ill-humour by adding a rider intended to restrain the President from entering upon any negotiation for the reduction or cancellation of the debts. The majority of Congressmen probably know well enough that any substantial payments are unlikely for some time to come. Some of them probably realise that to wipe out the debts would contribute to reviving general prosperity to an extent which would swell the dwindling public revenues far more than the payment of all the European debt-instalments, even if they could be collected. But Congress, like the Chamber of Deputies, is hugging a skeleton for political reasons, which will be further analysed.

If the effort to raise the burden of debts and reparations is being thwarted by political considerations, the same obstacle stands still more formidably in the way of the other financial remedy—the resuscitation of international lending. Who can be the borrowers and who the lenders? In their present turmoil neither India nor China supplies an inviting field for enterprise. There are few countries needing money in Europe or South America which can offer the necessary security. In the Spanish- and Portuguese-speaking countries of both continents, economic and political conditions are so disturbed as to offer little attraction to the investor. Central Europe is in no better condition. The internal state of Germany and Austria, though improved, can hardly be said to inspire confidence. With large credits frozen already, it is scarcely to be expected that the American, British, French, Dutch and Swiss bankers will look at any further demands for loans from those countries until the measures prescribed by the Basle Committees for their rehabilitation have been carried out and produced their effect. As long as there is unrest in central Europe, there is no feeling of security which would prompt the capitalist to tie up his money in Poland or the Balkan States. We are thus inexorably brought back to seeking first the

The Political Dilemma

exit from the political imbroglio, before any real hope can be entertained of emerging from the world depression. The Young Plan Committee in December arrived at precisely the same conclusion as did the Basle Bankers' Committee in August. "The adjustment of all inter-governmental debts (reparations and other war-debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence, which is the very condition of economic stability and real peace." They too appealed to the Governments "to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike." Nothing was done by the Governments between August and December in response to the cry of the Bankers' Committee. We may now proceed to examine the chances of greater heed being paid to this last exhortation, which rings more like a cry of distress than one of mere alarm.

IV. THE POLITICAL DILEMMA

WHEN one reflects for a moment on the incredible failure of the statesmen to act upon the unanimous warnings and recommendations of successive teams of experts, one is at first inclined to ask whether the great men of the world are all alike stricken with palsy. No one supposes that they are incapable of understanding the reports made to them and their implications. Mr. MacDonald, Mr. Hoover, M. Laval and Dr. Brüning are probably above the average of statesmen in intelligence, and all of them have at one time or another uttered words which show clearly enough that they comprehend the position and all its dangers. What then is the secret of their impotence? For those who believe that democracy with its inestimable privileges of liberty and licence is the best form of government, it is somewhat melancholy to reflect that at least until

The International Crisis

Mr. Chamberlain made the statement which is quoted later, Signor Mussolini was the only responsible Minister of a great country who had dared to speak the whole truth. He has openly advocated the *coup d'éponge* for reparations and war-debts alike, and one cannot help suspecting that he ventured to do so because he had no general election and no popular press to fear. Italy, too, would lose money, if no payments were received from Germany, but no Italian is in a position to run a demagogic campaign against cancellation. The appeals to the primitive instincts of uneducated opinion, which have been ruthlessly and unscrupulously launched in the United States, Great Britain, France and Germany, are impossible under a dictatorial régime, because they would be contrary to State policy. One is sometimes tempted to wonder whether the world would be wallowing in its present troubles if the rulers of the other four great countries concerned had the same freedom of action. But each of them has to take his country as he finds it, and their difficulties become apparent quickly enough when their political situation is reviewed.

Of the four leaders of democratic countries Mr. MacDonald is in by far the most fortunate position. He at least has got his election over with considerable success. Though the Prime Minister is not free from internal embarrassments, he is able to pursue a foreign policy, upon which in many of its essential features all parties are broadly agreed. In particular, since the date of the Balfour Note there has been no serious division of opinion in England on the subject of debts and reparations. As far as lay in its power, every British Government has been in favour of wiping them out. Mr. Chamberlain, in a clear and emphatic statement in the House of Commons on February 2, renewed adherence to that policy on behalf of the present Administration. They had, he said, urged the necessity for the Governments to come together immediately to conclude a permanent settlement of the reparation question on the basis of a frank recognition of the facts

The Political Dilemma

established in the Young Plan Committee's report. That proposal having proved impracticable for the present, the Government had agreed to the postponement of the inter-governmental conference till May or June, when conditions might be more favourable. Mr. Chamberlain added :

The legal obligations of Germany are laid down by the Hague Agreements and cannot be altered or annulled by the unilateral action of Germany. . . . But it is equally clear, from the report of the Basle Committee, that Germany is not in a position to resume the fulfilment of these obligations and that consequently when the creditor Governments come to consider future arrangements, that fact will assuredly have to be taken into account.

The Balfour Note policy, of all-round cancellation if possible, has rarely been more decisively expressed. As far as sacrifice is involved, it was made when the debt settlements were signed, by which this country renounced all claim to reimbursement, save of such sums as it was called upon to repay the United States. Some people are inclined to argue that we let off our debtors too soon, and should have done better to keep a hold on them. In the long run, however, it will probably prove that the adoption of a generous policy by the second creditor country as a contribution to general economic recovery was a wise and compelling example. But though Lord Balfour found the key, and the present Government is still offering it to the world, it has to be used by others before the door can be unlocked.

Germany may be taken next, the core of the international problem. As was pointed out in the last number,* parliamentarism has broken down in Germany, but nothing has yet taken its place. Dr. Brüning is still a parliamentarian in name, occasionally making the gestures of a dictator. Hitler is a dictator by profession conscientiously making the gestures of a parliamentarian. The truth is that Germany has not yet been educated to democracy. Hitherto the crisis has not provoked a national reaction along con-

* THE ROUND TABLE, No. 85, December 1931, pp. 78-84.

The International Crisis

stitutional lines. The natural inclination has been rather to form organised and armed forces of a distinctly unparliamentary character. Hence the tranquillity of the country is constantly perturbed by the parades and counter-parades of these pseudo-military bodies, of which there are now no less than four—the *Stahlhelm* and the Nazi Storm-troops on the right, the Communist Red-fighters on the left, and in the centre the *Reichsbanner* formed to defend the republican régime. These warring factions have produced a great deal of commotion at home and abroad. They have stirred the apprehension of revolution and civil war within, for which there was some justification, and the fear of German aggression without, for which there was very little. As long as there was an unstable Government at the helm, dependent on the will of a Reichstag which no longer commanded the confidence of the people, the political importance of these organisations was considerable; but as soon as Dr. Brüning, backed by the President, showed that he was resolved to govern, the star of Hitler and the other partisan leaders began to wane. It was realised that their armed forces were so evenly balanced that they cancelled each other out. A Government determined to preserve order could crush any of them by using the police and the Reichswehr, aided by its opponents. The fear of a Communist or Nazi *coup d'état* has thus faded into the background during the last few months. The country at once responded to leadership and backed the Government in a great effort to make the emergency decrees effective. The German nation put forth a tremendous endeavour to improve its economic position by a drastic experiment in general deflation on the Australian model. Its consciousness of that endeavour under resolute guidance has already done something to dispel the mood of despair. The fact of that endeavour has also done something to revive in foreign countries the belief in Germany's willingness and ability to help herself.

This improvement in the German position was beginning

The Political Dilemma

to produce some effect in France. The Government was obviously seeking a "formula" which would permit the skeleton of the Young Plan to be preserved, even if the body could not be embalmed. It realised, however, that no further payments could be expected in the immediate future, which meant, as most people privately admitted, that reparations were finished for ever. An influential paper of the moderate Left even flew a kite in favour of complete cancellation. But to the French mind the reparation question is not an isolated problem. If reconciliation with Germany could be purchased at the price of financial claims which are no longer enforceable, the bulk of the French people would probably waive them with a shrug of the shoulders. But the majority of Frenchmen do not believe in any such possibility. Just as the evacuation of the Rhineland was followed by the proposed Austro-German customs union, so they are convinced that the sponge would hardly be dry on the reparations slate before Germany advanced further demands for re-armament and the revision of the eastern frontier. The complete scrapping of the Young Plan would be interpreted as a sign of weakness, which would further loosen the structure of security erected by the peace treaties. These fears seemed to be confirmed by Dr. Brüning's statement to the British Ambassador, which was generally and apparently wrongly understood as a deliberate repudiation of the obligations freely accepted by Germany when she signed the Young Plan at The Hague. The reaction in France was such that the Government immediately stiffened its attitude both on reparations and disarmament. The German Chancellor, on the other hand, could not have openly declared his willingness to resume payments at any future date. To have done so would have tied his hands before entering upon the Lausanne Conference and would have raised a storm in Germany against further payment of "tribute."

A complete deadlock was thus created. The British Government, which had been using every effort to push

The International Crisis

on the Conference, reluctantly acquiesced in its postponement, seeing that it was already agreed that disagreement was inevitable. If no general election were pending in France or Prussia, the risk of holding the meeting might still have been run ; but neither the French nor the German Government dared modify its position within a few months of an appeal to the people. It may prove that in six months' time the tension will have relaxed, but in the meanwhile Europe can only flounder on deeper into the morass.

Moreover, there was yet another element which would in any case have darkened the prospects at Lausanne. Under the pressure of Congress Mr. Hoover had withdrawn the helping hand he had held out last summer. For him, too, a doubtful election was beginning to draw unpleasantly close. A revulsion of popular feeling had set in against the generous mood of the moratorium. Its mixed reception and the negative result of the Laval visit made the American taxpayer less willing to shoulder the burden of the European debts, until he saw some evidence of a real effort by Europe to set its own house in order. The spectacle of our continent's inglorious failure to restore a peaceful atmosphere necessary not only for its own but also for America's prosperity began to exasperate American opinion and to produce bitter disillusionment as to America's part in a war which had apparently settled nothing and unsettled everything. When the average Middle-Westerner looks at the endless wranglings over reparations, frontiers and tariffs growing yearly more acute as the new race in armaments gets under way, is he to be blamed altogether for harking back to the isolation of George Washington, or for thinking that peace is defined in Europe as "*la guerre sous une autre forme*" ? That is not a kind of peace which he understands. The United States was beginning to learn from its present troubles the need for co-operation, but after the rebuff suffered by its first move, the American public is unlikely to favour a second attempt, whether there be a Republican or a

The Political Dilemma

Democrat at the White House, until it sees some likelihood that co-operation will be fruitful and effective. For that the primary condition is the establishment of real peace in Europe, which cannot be accomplished without a real beginning of disarmament.

It is this attitude of mind which largely explains the surly temper of Congress and the refusal of the American Government to participate in the Lausanne negotiations. It does not follow, however, that, if an agreement were reached here, the United States would be unwilling to make its contribution to an all-round settlement. Any clear sign of returning harmony in Europe would probably evoke a response in America. The response will be all the readier if the Disarmament Conference gives proof of reaching concrete results. Unless it does, the settlement of the reparation problem will not by itself suffice to clear the air. As no settlement is yet in view, the Conference opens in circumstances which make success more than ever difficult and more than ever vital. As if the schisms of Europe were not enough for it to contend with, its prospects have been materially clouded by the League's failure to secure respect for the Covenant in China. Whatever reasons or excuses may be advanced, the fact remains that the Council was entirely unable to prevent the use of military force as an instrument of national policy. It is too early yet to apportion responsibilities, but the representatives of the great Powers, among which the British Government still holds a pre-eminent position, were not at first even willing to mark their disapproval of the breach of the peace pacts by endorsing the American protest. The consequences in the Far East are not yet predictable. Their far-reaching possibilities have already been brought nearer home by the threat to Shanghai, which has fortunately brought about co-operation between Great Britain and the United States. Their co-operation in this field is enormously important in itself, but equally important is its possible extension to other matters. In the mean-

The International Crisis

while, however, the initial failure to uphold the guarantees of peace provided by the League and the Kellogg Pact has already had unfortunate consequences in Europe. The fears of war which are one of the root causes of the depression would have been sensibly allayed by successful League intervention in the Manchurian affair. Its absence has had a correspondingly disturbing effect. To the initiated it is easy enough to draw distinctions between Oriental and European quarrels, but the ordinary man simply argues that if the League cannot preserve the peace in the East it cannot be trusted to do so in the West. To many countries the League is the foundation of their security. If it is a broken reed, the only alternative is to resort to the old methods of alliances and armaments, which must ultimately create such another system of mutual hates and fears as inevitably culminated in the Great War, how inevitably Mr. Churchill has convincingly shown in his first and last volumes.

It is not a reassuring situation, nor can the British Government be absolved of its share of responsibility in bringing it about. It gave no lead in the Manchurian affair, which might have been checked and confined to manageable limits by a show of firmness at the outset. The inaction of the Council of the League was interpreted in Japan as condonation, if not approval, by the great Powers, including the United States, of military action, and has thus encouraged its extension on a scale which threatens the balance of power in the Far East. It is reassuring that at the moment of writing the British Government has finally accepted the United States' demand for co-operation in dealing with the critical situation which has now arisen in consequence. Any other course would have jeopardised Anglo-American friendship, which is bound to be the corner-stone of British policy and the best guarantee of peace. It may be hoped that it is not too late to prevent a conflict of incalculable dimensions and to restore the respect for international engagements.

The Political Dilemma

It may also be hoped that the British delegation at Geneva will maintain a positive attitude towards disarmament. If we believe that disarmament is essential to peace in Europe and that peace is essential to economic recovery and stability, we are bound to give proof of the courage of our convictions. We have made a substantial contribution by accepting the limitation of naval armaments, but that does not exhaust the possibilities of reducing expenditure for warlike purposes, which weighs heavily on our own and on every other budget. The world's troubles will not cure themselves. Energetic and agreed action by the principal Governments is necessary, and it cannot be initiated without a decisive lead.

All these problems, however, really form part of a single complex, and cannot be profitably handled individually. The British Empire occupies a position in the world's affairs which places a large share of the responsibility for leadership on the shoulders of this country. It is perhaps better situated than any other to form a comprehensive and sympathetic understanding of the warring points of view, which have to be reconciled if any radical solution of the present political and economic chaos is to be found. It can only be discovered by infinite patience and unwearying reasonableness which avoids antagonism towards any of the principal actors in the unhappy drama. It would be a mistake, at this stage at any rate, to make common cause with any of them in opposition to the others. However misguided the French or German or American attitude on debts and reparations may seem to some of us, each is the outcome of strong, even passionate convictions, which cannot be ignored and which must probably receive some measure of satisfaction if a solid settlement is to be reached. As the United States would not ratify the pact of guarantee, or Great Britain the Geneva protocol, France is still unwilling to admit any relaxation of the peace treaties which might be made a precedent for demanding further political concessions. It may not be impossible to obtain a

The International Crisis

final settlement of the reparation problem at the price of a guarantee of a ten years' political truce, during which no question should be raised as to the territorial provisions of the treaties. Germany has hitherto refused to give any such undertaking, but as complete economic collapse looms nearer, she might be willing to revise her attitude, if at the same time some substantial beginning were made in general disarmament. As Great Britain stands to lose on her German investments considerably more than France by the default of Germany, her interest lies in making some sacrifice in order to promote such a solution, not forgetting that it would demand of France very considerable sacrifices, in appearance at any rate. The real value of the Disarmament Conference lies in the continuing opportunity which it offers for the simultaneous discussion of all the inter-related problems which constitute the existing impasse. It is useless to treat them separately. Reparations by themselves present a completely insoluble conundrum. The same is true of disarmament, tariffs and the monetary question. If regarded, however, as parts of a single problem, it is not inconceivable that a way out of the European tangle may be found. Once Europe could show that it had settled its differences, the way would be open for the discussion of war debts with the United States under circumstances affording some prospect of success. It is certainly much too soon to despair of a solution being worked out along such lines, and every effort of which the British Government is capable should be tried in order to bring about a European arrangement as the first step in a general liquidation of the international troubles which are bearing the world down. The other line of advance which has been suggested is that we should seek an agreement with the United States, perhaps in conjunction with Italy, as a preliminary to an arrangement with Germany independently of France. The objections and dangers of such a course are obvious enough to indicate that it could only be adopted as a last resort. The present position, though

The Political Dilemma

grave enough, certainly does not warrant such an expedient being considered. There is still time and opportunity for Great Britain to play her historic rôle of intermediary in Europe, and to seek its salvation and her own by means of an understanding, to which France, Germany and Italy would be consenting parties. In the long run, as recent history has shown very clearly on several occasions, no artificial or imposed solution can hope to stand. It is only by free understandings freely arrived at that the peace and prosperity of the world can be secured. To bring them about account must be taken of realities, not only economic and financial, but also psychological. If the international crisis were due to material facts alone, it would be already abating. Its gravity consists in its largely originating in fears and passions which gradually acquire accumulating force. The peoples are, however, growing more conscious of their miserable situation and are eagerly looking for a sign. There are indications which show that the conditions for launching an economic recovery exist, but a decisive turn in the political situation is needed to give it the impetus required to set it on its way. The next few months will probably decide whether the clouds begin to lift or whether we plunge into the perils of another tempest of unprecedented violence.

IMPERIAL PREFERENCE

I. A GREAT OPPORTUNITY

THE forthcoming Ottawa Conference, which originated merely as an attempt to cloak the failure of the 1930 Imperial Conference in the field of trade co-operation, must now be recognised as a great opportunity—an opportunity to prove that, in spite of political devolution and local nationalism, the British Commonwealth of Nations is capable of acting as one, in pursuit of an end which is valuable not merely to a few of its members at some particular time but permanently to the whole Commonwealth, and indeed to the world. That change from an excuse to an opportunity is the last phase of an evolution in men's minds, both at home and in the Empire overseas. The war destroyed the insularity of British public opinion. The desire, so strongly displayed now in the United States, for isolation from Europe was shown to be vain, while with the growth of internationalism went the decay of Little Englandism. Popular faith was pinned to great international experiments—the League of Nations, the International Labour Office, the World Economic Conference. Now a reaction has set in. No one in a position of responsibility denies that the League of Nations must remain the corner-stone of our foreign policy, but, successful as it has been in so many important spheres, it has not yet brought peace to men's hearts; the constant efforts to break down barriers to trade, while they prevented any great rise in tariffs in the Old World,

A Great Opportunity

left Great Britain still stripped for the race but still naked and ashamed in a concourse of gladiators ; labour conditions have not been equalised, and there is no bogey more terrifying to the imagination of the working man than lower standards of life abroad. All these things had sown the seeds of doubt even before the present crisis. Now the British voter sees the actual or imminent collapse in Europe of the economic and political system which he and his countrymen have expensively supported with money and with guarantees, and a feeling of national self-reliance, shortsighted as it may be in some of its manifestations, was his natural reaction. But his disappointment does not yet embrace the Empire, and the Ottawa Conference is the chance to prove that it need never do so. To him the inhabitants of the Dominions are not and never will be foreigners ; they are not concerned in the European tangle of debts and reparations and frontiers and security, of which he is heartily sick. So British opinion is turning towards the Empire for those things which it asked of internationalism, but has so far asked in vain.

The general election of October enabled these forces to be mobilised, not so much because it returned a Government free from inhibitions about tariffs, as because it awoke in the British people feelings which had long lain dormant beneath a blanket of domestic differences. The sentiment that has come to the surface is compounded of a desire to use any instrument, provided it be used boldly, to revive trade and bring better times, a growing doubt of the effectiveness of our cosmopolitan trade policy, and a hope that the Empire might give us what our European ties had failed to secure. For one thing, sterling had declined in value relative to the franc, the mark and the dollar, but the currencies of the Empire had mostly moved with sterling, and the electorate thought—vaguely as it must in these matters—that the community of interest so displayed might make it worth while for the members of the Commonwealth to get together, and to act in concert as a real

Imperial Preference

world economic power. The sentiment was, perhaps, primarily nationalist, but events have taught us our impotence to withstand alone the sweep of world economic forces, and the impossibility of cutting ourselves off either in trade or in politics from the outside world, so that while the horizon of our hopes was narrowed it still included at least the members of the British Commonwealth. With them we start with sentiment on our side; we have no barriers of political antipathy to break down. Their standard of life is as high as or higher than ours. Within the Commonwealth, at least one forcible motive for restrictions upon international trade is absent from the start, since we do not need to think in terms of self-sufficiency and defence. These are logical reasons for attacking the problem of trade barriers within the British Commonwealth first, and for postponing our efforts in relation to other countries for a later occasion, but the strongest reason of all is the impulse given to imperial co-operation by the ebullition of public sentiment.

And in the distant Dominions something of the same spirit seems to have emerged. The success of "national parties" in Australia and New Zealand, the agitation for the abandonment of the gold standard in South Africa, are waves of the same flood as swept Great Britain. In Australia the ejection of the Labour party from office meant a change on the tariff issue, the reverse of that which occurred in the mother country, but high protectionism in the Dominions has been no less an obstacle to the development of a concerted Imperial economic policy than free trade at home. Mr. Bennett's imposition of dumping duties on British goods after the divorce of sterling from gold seemed to betoken a reverse tendency, but (as to some extent in South Africa also under similar circumstances) the measure was criticised by many supporters as well as by opponents of the Administration, and it was subsequently modified in Great Britain's favour. Personal observation shows that—perhaps because of the exposure by the Beau-

A Great Opportunity

harnois scandals of the part played by big business in forming the policies of the great parties—there is in Canada a very general desire that the tariff should aim rather higher and achieve rather more than the artificial and expensive support of industry in the East. In Ireland the abandonment of the gold standard was indeed the signal for a fresh demand by the Republicans for the creation of an independent Irish currency, but at the same time it exposed, as Mr. Cosgrave's Government was quick to retort, the commercial inter-dependence of Great Britain and the Free State, and an official Irish delegation has already visited London to discuss the terms and purposes of an imperial trade agreement.

It is more than a fortuitous combination of circumstances—in which economic adversity plays an important part—that has caused the outlying members of the Commonwealth to welcome with peculiar warmth a search for an imperial economic policy. For close on a hundred years the history of the British Commonwealth has been dominated by political devolution from the centre and the growth of independence in the parts, of which economic nationalism was at once the result and the symbol. India, Burma, Ceylon, the African territories, the West Indian islands and other "crown colonies" have still some marches to tread along that road, but the Dominions, through the world war and their recognition at Paris as independent Powers, through the post-war Imperial Conferences, the Balfour Memorandum of 1926 and the Statute of Westminster, have been brought close to the end of the journey. Political nationalism having thus achieved its end, the economic nationalism that accompanied it will certainly change its direction into new and broader channels. It has, of course, been tempered by a generous measure of preference granted by the Dominions to Great Britain—which the mother country has looked upon as some return for the great imperial burdens she has borne, in the fields of defence, finance and of trade, too, as the metropolis of the Commonwealth, apart from the preferences that she has

Imperial Preference

so far granted; but generally speaking the preference has been a by-product of a policy designed in relation to local and not to imperial needs. Some nationalists in the Dominions, especially in Canada, have opposed the growth of industrial protection; relieved of their fears of political domination by Great Britain, they are turning to the Empire as a means of securing the greater freedom of world trade that they desire. Some nationalists, on the other hand, have been equally ardent advocates of protection; but when legislative autonomy is secure there is no longer any need to demonstrate it by displays of fiscal independence, and nationalists of the latter kind, too, are far more willing to consider the possibilities of the Empire as an economic unit now that it is obviously not a political unit. From a more rational economic view of the Empire we may yet proceed to a healthier political view, which will reconcile the independence of the parts with the development of a common policy for the whole, seeking the advantage of all through the promotion of world peace.

But a great opportunity always implies a great danger, the danger of failing to grasp the opportunity. If this fresh and powerful sentiment is spilled upon the ground or is allowed to engender merely a set of unnatural bargains for the benefit of special interests, it may never appear again. If the British Commonwealth, with all the force of imperial loyalty and of common blood and tradition to strengthen its purpose, cannot by concerted effort stem the tide of economic nationalism and set an example to the world, what can be expected of conclaves and alliances which have no such bonds? The failure would be a failure in the eyes of the world, and the consequent sneers at the boasted unity of purpose in the Commonwealth would be accompanied by general disillusionment and cynicism. How can France and Germany be expected to agree on the complex matters of disarmament, frontiers or reparations if on the simple issue of economic policy Great Britain and her Dominions cannot reach an accord?

More and Better Trade

II. MORE AND BETTER TRADE

IT is therefore all the more important to be sure what we hope the Conference may achieve and what irresistible limitations there are to its possible achievements. We have thought too long of a system of imperial preference as implying fresh restrictions upon trade, and thus fresh dangers to our economic welfare. The Ottawa Conference will fail if it does not approach the problem from precisely the opposite standpoint. The purpose of an imperial economic system is to cause trade to flow not less but more freely. We want to exchange more of our products for more of the products of our fellow members of the Commonwealth. No member has, in the long run, any interest in cramping the trade of the world, and negatively we do not wish an imperial preferential system to diminish world trade just as, positively, we wish it to enlarge empire trade. An imperial economic policy, therefore, which was only a super-nationalism in the field of trade and tariffs, imposed upon the unrestricted nationalism of the parts, would be a disaster to the Empire and to the world ; it would strangle the trade by which everyone of us must live, and, what is more, would contain the germs of its own defeat. An Empire still divided by high tariff walls, and ringed about by an almost unscaleable barrier against the rest of the world, would be an Empire doomed to decay if not to disruption ; yet it is the inevitable conclusion of economic policies urged upon us by some who most emphatically profess and call themselves imperialists.

We shall therefore not make much progress at Ottawa if we have not at the back of our minds the conception of trade as a mutually advantageous interchange of goods and services. Within the limits set by considerations of defence, social policy or monetary difficulties, the more trade the better for everybody. Tariffs, in this light, far

Imperial Preference

from being in themselves a national asset, are an unfortunate necessity imposed by the action of others or by fundamental national policy. If a tariff is valuable in itself, a reduction of the tariff on British imports is as harmful as a reduction of the tariff on imports from foreign countries, and the "sacrifice" must only be made for an equivalent return, which itself takes the name and appearance of a sacrifice by the other party to the reluctant bargain. Let there be no more talk of "mutual sacrifices" or "concessions" to be made at Ottawa. The basis of the new imperial economic system must be mutual advantage or it will be an unsubstantial, jerry-built makeshift doomed to early collapse. Buying and selling are reciprocal functions and the wealth that goes into a country by purchase should be regarded with no greater suspicion than the wealth that goes out by sale. If the world has not yet learnt that lesson then we had better shrug our shoulders and wait until the complete breakdown of international exchange drives us to a system of barter which would teach us the lesson painfully in words of one syllable.

It does not follow that all purchases and all sales are equally advantageous. We recognise that proposition in our national laws, which regulate the sale of liquor, medicaments and other commodities. Internationally we tend, for what many believe to be equally sound reasons, to regulate purchases rather than sales, though we have also made some attempt to control the export of armaments and dangerous drugs. In the present issue perhaps the most important consideration determining the control of international trade is the balance between industry and agriculture. The Dominions long ago decided that at whatever sacrifice they would not consent to remain merely producers of foodstuffs and raw materials, and by now their industries have become a national necessity as well as an object of national pride. In Great Britain the gradual submergence of agriculture beneath a growing volume of industry and services has called forth a corresponding protest which has

The Policy of Great Britain

considerably influenced public policy in tariff matters. These ambitions, like the special relations between members of the British Commonwealth and outside countries (*e.g.*, Great Britain and the Argentine or Scandinavia, Canada and the United States) must form part of the data of the forthcoming negotiations. It is no use our entering the Conference unless on these fundamental points we know our own minds and have carefully explored the ground.

III. THE POLICY OF GREAT BRITAIN

THE general attitude of Great Britain is perfectly clear. We are a great trading nation, absolutely dependent for livelihood on the maintenance of world trade. Roughly 60 per cent. of our exports go to foreign countries. Nearly one half of our vast overseas investments have been made outside the British Empire. It may be that if we had placed more of our capital in the Empire, and particularly if we had invested more in commercial enterprise there and less in foreign government loans, our export trade would have been less precarious and less dependent on the policies and prejudices of foreign countries. Certainly we would be glad if the percentages were more favourable to the imperial link, and perhaps the Ottawa Conference may help to bring about such a change, but in the meantime our existing position cannot be left out of account. Nearly £200 millions of our normal annual receipts, as a country, come from invisible items, other than long-term interest, directly or indirectly dependent on the commercial prosperity of the world at large, an amount which we cannot afford to see further diminished. Our position as manufacturers and bankers for the world, on which our livelihood depends, has been based on cheap food, cheap raw materials and the stimulus of free competition. Hitherto, therefore, while it has been a principle of our policy that any import duty

Imperial Preference

should, if possible, carry an imperial preference with it, we have been prevented from extending any large measure of preference to the rest of the Commonwealth by the simple fact that economic necessities have demanded the retention of general free trade. Some believe, indeed, that those necessities remain equally forcible now, especially since the depreciation of the pound has already given us some of the advantages that were expected from protection, and that we should still be unwise to change our policy even in the hope of expanding trade within the Commonwealth. That question, however, is not, and need not be, argued in this article because it is already apparent that, for good or ill, Great Britain will very shortly have a general and systematic tariff for the dual purpose of revenue and protection. In hazarding the established benefits of our former policy, we are motivated partly by the need to defend ourselves against the effect of tariffs elsewhere on our own balance of trade, partly by the desire to arrange a common economic policy with the rest of the British Commonwealth. If we, for that purpose, are prepared to forsake free trade it is more than reasonable to expect the Dominions at the same time to modify their policy of high protection. Of imperial preference Great Britain must demand that it should expand rather than diminish the aggregate of international trade, that it should enlarge her exports and not merely injure her competitors in one market so as to intensify their aggression in others. That is not an impossible demand. It is false economics to contrast our imperial and our foreign trade and to assume that a rise in the one must necessarily be accompanied by a fall in the other. One of the foremost reasons for the decline of our overseas trade since the war has been comparative lack of adaptability. World changes in demand and in productive capacity have accounted for most of the decline in our staple export trades; in some of the newer industries—motor cars, aeroplanes, artificial silk, and many others—our progress has been encouraging, but it has not

The Policy of Great Britain

been fast enough to make up for the decline in the heavy industries, cotton and wool. If we could place greater reliance on the home and imperial markets we might well be strengthened rather than hindered in foreign markets for these new products.

But if our aggregate of trade is to be enlarged our imperial policy must be flexible enough to allow us to take advantage of any special opportunities that may arise outside the Empire. It would be foolish to shut out the rest of the world for ever from advantages which the members of the Commonwealth accord to each other, and to make those advantages wholly dependent on such exclusion. Since the British market is as important to the foreigner as the foreign market is to Great Britain, we should fear tariff retaliation not so much for its direct injury as for the harm it would do to world trade as a whole, but the repercussions upon our own position would be serious enough. Moreover, our imperial ties would be no more than fetters if, while suffering all the disadvantages of protection, we were to be prevented from reaping its benefits in securing special concessions from foreign countries on the strength of the bargaining power that it would afford. That is especially true at the present moment, when the negative success of traditional commercial policy in securing "tariff disarmament" has driven many countries to seek a way out through customs unions and preferential systems. The Scandinavian countries, for instance, followed Great Britain in abandoning the gold standard, and are now putting their heads together for the development of a common trading policy in which, sooner or later, they are bound to invite Great Britain's co-operation; together, they rank with our best single customers, and for their part they are so dependent on the British market that they are bound to offer advantageous terms which, desirable as it may be to divert some of our demand for their products towards Canada, Ireland and New Zealand—not to mention our own home producers—we should at least be in a position to consider.

Imperial Preference

The attachment—in their own interest—of so many countries to sterling in spite of its inconvertibility into gold has been remarkable, and might be employed, as we suggested last December,* to organise a new international exchange system which would avoid some of the perils of the post-war gold standard; if nothing is done in the meantime, Ottawa will present an opportunity for taking a first step in that direction. But to leave all foreign countries out of a sterling union would be a grave error, yet it would almost inevitably follow if the new system of imperial preferences were to be aggressively directed against the rest of the world and were to forbid preferential arrangements outside the boundaries of the Empire. Sir Herbert Samuel, speaking in the House of Commons on February 4, asserted that this would be true of the actual tariff proposals that he was denouncing; that criticism, if well-founded, would be of great moment, and it is to be hoped that the Government will bear in mind the importance of not unduly tying their hands at Ottawa for negotiation with foreign countries. The point is not by any means of purely British interest. South Africa has already, for what seemed to her good and sufficient reasons, concluded a commercial treaty with Germany by which that country receives all the subsequent preferential advantages extended to Great Britain, and there is no saying when opportunities may not arise for making other special arrangements, say between Canada and the United States, or Australia and Japan.

IV. THE SCOPE OF PREFERENCE

EACH of the Dominions, before putting up proposals at Ottawa, will have to consider its own fundamental national policy, its relations with third parties, its internal political situation. The scope of preference, or other methods of expanding trade (of which tariff preference is plainly only one) is thus somewhat limited, and cannot,

* See THE ROUND TABLE, No. 85, December 1931, p. 55.

The Scope of Preference

indeed, be clearly delineated until policies are determined and technical details more fully explored. But a rough indication of the magnitudes involved is given by the following tables, showing the imports of manufactures into the Dominions and of foodstuffs and raw materials into Great Britain.

I. IMPORTS OF FOOD AND RAW MATERIALS INTO THE UNITED KINGDOM

Annual Averages 1924-29, in £ million

	From British countries	From foreign countries	Total
1. Total imports of merchandise ..	380	866	1,246
2. Grain and flour, etc.	45	63	108
3. Meat	26	85	111
4. Butter, cheese and eggs	37	48	85
5. Fruit	9	29	38
6. Sugar, tea and tobacco	44	42	86
7. Raw textiles	73	101	174
8. Wood and manufactures thereof	6	58	64

II. IMPORTS OF MANUFACTURES INTO THE DOMINIONS AND INDIA

Annual Averages 1924-29, in £ million

	From United Kingdom	From British countries	From foreign countries	Total
1. Total imports of merchandise—				
(a) Canada	36	11	169	216
(b) Australia	64	19	66	149
(c) New Zealand	23	11	14	48
(d) South Africa	34	10	26	70
(e) Irish Free State	49	2	11	62
(f) Newfoundland	1	3	2	6
(g) British India	92	14	82	188
2. Iron and steel semi-manufactures	19	0	14	33
3. Agricultural, electrical and other machinery	31	1	35	67
4. Motor cars, etc., and parts	8	5	33	46
5. Other metals and manufactures of metal	25	2	29	56
6. Cotton piece goods	51	0	13	64
7. Other manufactured textiles and apparel	56	9	39	104

Imperial Preference

Of course it would be absurd to expect that any agreement should cover even the majority of the items contained in the tables, and indeed it would be dangerous if it did, but the size of the figures shows at least that, other considerations apart, the field is large enough to make an attempt at an imperial preferential system worth while. It has been stated with authority that the Dominions imported from foreign countries in 1929 as much as £280 millions' worth of goods of a type which could be satisfactorily produced in Great Britain, and while the figure may be a little exaggerated by the inclusion of classes of manufactures in which foreign countries have for one reason or another an overwhelming superiority, it can scarcely be put at less than £200 million on a conservative reckoning. At the 1930 Imperial Conference Mr. Scullin stated that Australia was importing between £40 and £45 millions' worth of goods from foreign countries of a type in which Great Britain could compete.

The question of the division of manufacture between the Dominions and Great Britain is perhaps more complicated than any other which will be raised at Ottawa. Here in particular careful preliminary investigation will be necessary, since discussion in general terms is bound to be fruitless. The question to be settled is, how can wasteful competition be supplanted by advantageous specialisation? There are many lines of manufactures which the Dominions attempt—or may attempt—to make for themselves but which, for want of a large enough market or of associated industries, they can only produce very expensively, whereas in other lines, which they are perfectly competent to manufacture, they are hampered by the cut-throat competition of British and foreign producers. If the Conference can replace this wasteful division of effort by specialisation, standardisation and concentration of production, it will do much to enhance the industrial efficiency of every member of the Commonwealth. Even were the only result to be a precaution against unnecessary overlapping in future development,

Methods of Negotiation

that would be a step forward from the chaos of the present. Representatives of the steel industry are known to have been considering the problem of intra-imperial trade in these terms for some time past, and last year, at the invitation of the Canadian Government, a mission of British industrialists visited Canada especially with the view of discussing possibilities of complementary production. The Federation of British Industries and other interested bodies in Great Britain are adopting the same line of approach, as well as attempting a direct estimate of the possible markets for British goods in the Dominions. These valuable semi-private investigations must, of course, be linked up with official preparations. In Great Britain a special committee of the Cabinet is being advised by inter-departmental committees of officials who are reviewing very closely the possible scope of preferences and other means of enlarging trade with the Dominions. Each of the latter, of course, has its own method of preparation. Even six months before the proposed date of the Conference—not by any means too long a time—it is plain that in matters of production and trade the ground is being much more carefully explored than it has been before any previous Imperial Conference.

V. METHODS OF NEGOTIATION

THIS exploration will indicate the possible field of preference or other devices. But there is another vital point to be settled, namely, by what method should the attempt to enlarge trade within the Commonwealth be made by the British Government, with whom the initiative is bound to lie. A suggestion has been put forward,* with considerable cogency, that instead of going to the Conference prepared to grant some isolated

* Letters to *The Times* from Mr. Richard Jebb, December 23, 1931, and January 5, 1932.

Imperial Preference

favour, such as a wheat quota, in return for whatever particular and unrelated offer the Dominions might make affecting our exports of manufactures, "we should establish in our next budget a tariff designed throughout to meet our own domestic needs, but with at least two scales of duty: (1) the general tariff, *i.e.*, applying to all countries not subject to exceptional treatment; and (2) the preferential tariff, applying alike to all parts of the Empire. In fixing the rates of duty on each class of goods, care is taken to safeguard the primary object. If it is protection, the preferential rates must be kept high enough; if revenue, the general rates must not be too restrictive. So we should immediately reach the goal, of effective Britannic reciprocity, by a certified path which avoids any preliminary bargaining, with its inseparable risk of friction and failure." That plan has undoubtedly a great deal to recommend it. Its chief merit is that it would safeguard Great Britain against "buying a pig in a poke," against obtaining preferential advantages of hypothetical value from the Dominions in exchange for an alteration of her own trading arrangements of whose defects or merits she could have had no experience. It would safeguard her, too, against building up a patchwork preferential system in the Empire without a principle and without any conception of an ultimate goal.

If, however, the plan means abandoning altogether the idea of negotiating with the Dominions on the basis of alterations in our tariff and in theirs, it is presumably impracticable. The indefinite postponement of the Conference to which we are pledged, and to which the British electorate and Parliament keenly look forward, would let slip the opportunity of using the enthusiasm of purpose that we have described, until a vague future date at which it might no longer exist. In so far as the plan implies only the construction, before we negotiate, of a general tariff system in which the Dominions and colonies receive substantial preference, it is already being put into force.

Methods of Negotiation

Many of the very real dangers which the proposal is designed to obviate will disappear if the principles outlined in this article are upheld at Ottawa ; that it is to say, if no country enters the Conference without a clear idea of what fundamental tasks it intends its tariff system to perform, and if arrangements are reached only on the score of mutual advantage, not mutual sacrifice, in accordance with a conception of the Empire as a collection of autonomous units trading more and more fruitfully and on a greater and greater scale with each other, while at the same time not attempting in any way to isolate themselves from the rest of the world.

But there are two further choices that must be made regarding the method of approach to "effective Britannic reciprocity," choices different from Mr. Jebb's antithesis though implicit in it. Granted that a conference is held with the purpose of securing some understanding between the Dominions and Great Britain upon reciprocal trade advantages, whether by tariff, quota or other means, is the outcome to be a set of commercial treaties binding the parties in precise terms, or the continuance of the traditional policy of free and automatic preference under the guidance of a "gentleman's agreement"? There is much to be said for the latter alternative, provided the understanding were broad and flexible enough to allow any party to modify its tariff, if necessary, without raising an accusation of breach of faith. It would preserve beyond dispute the tariff autonomy of the members of the British Commonwealth and the adaptability of their fiscal arrangements to meet either an economic emergency—a crop failure, a collapse of prices, the breakdown of an exchange system—or a change in their fundamental economic policy. It would avert the danger, which many believe to be acute, that the use of imperial sentiment to manufacture commercial pacts will destroy the sentiment and leave only the pacts.

The case for the opposite course cannot be logically

Imperial Preference

presented until the second choice has been made. Is Great Britain to be bound to offer the same terms to each and all of the Dominions, or may she discriminate between them? The disadvantages of the former alternative are not always fully realised. Not only would a commercial treaty to which six Dominions (not counting India or other parts of the Empire) must simultaneously be parties be extremely difficult to negotiate; it would be almost impossible to maintain, since a change in government in some one or other of the Dominions occurs very frequently, and since each of them jealously cherishes its constitutional right to alter its taxation—indirect as well as direct—as and when it pleases. In no one of the Dominions, let alone Great Britain, is the tariff “out of politics,” in the sense in which it is so in France or other European countries. Thus the septempartite agreement would swiftly wear thin with friction against Dominion tariff autonomy and against jealous suspicions, among certain of the parties to the bargain, that they had not got quite as advantageous an exchange out of it as their fellows. That last objection holds, in some measure, against automatic preference also, but if a bargain in black-and-white must grant the same terms to every member of the Commonwealth it would certainly be preferable to have no written bargain at all.

Would we not, then, be well advised at this stage to abandon the principle of equal preference for all parts of the Empire, for the sake of progressing more rapidly towards the enrichment and enlargement of intra-empire trade and of dealing faithfully with those Dominions which are willing to offer us the greatest advantages? If progress is to be held up indefinitely by the reluctance of a single Dominion to modify its protectionism, the hope of expanding commerce by imperial preferences had better be abandoned from the start. Any Dominion which stood aside at first would be able to come in as soon as it became aware of the advantages it was missing. At all costs the

Methods of Negotiation

Ottawa Conference must bring about a net lowering of tariff barriers, so that each of the participating countries may receive a balance of advantage through the profitable expansion of trade. We believe that the best way of achieving that purpose is for Great Britain to be prepared, if necessary, to enter into separate gentleman's agreements with groups or individual Dominions, as a preliminary to a general accord which might mature only after years of experience, and in any case fitted mentally into a scheme of what intra-imperial trade really ought to be in relation to world trade as a whole.

Such a plan would avoid some of the pitfalls that lie in the path of imperial preference when it turns towards the other parts of the Empire. India, for instance, as her representatives have frequently pointed out, is not in a position either politically or economically to grant any substantial increase of imperial preference; were she then to share fully in the advantages which the Dominions had secured in exchange for enlargements of their own preferences to British products they might legitimately complain. Should the colonies participate in those advantages or not? Only those most ignorant of the structure of the Commonwealth could imagine that a simple Act of the Imperial Parliament can establish in the colonial empire a system of reciprocal preferences, or "Empire Free Trade," or for that matter any other alteration of fiscal policies. Ceylon, the West Indian Islands, the African territories and other colonies have in these affairs a large measure of self-government with which we would attempt to interfere only at grave peril to the amity that exists between them and ourselves. In West Africa by the Treaty of St. Germain-en-Laye, in the mandated territories by the terms on which we hold the mandates, we are bound not to establish preferences against foreigners. And over the whole of the non-self-governing Empire trade policy must be guided by the consideration that any attempt to build barriers against the rest of the world and make the

Imperial Preference

colonies just such a private preserve as they were in the eighteenth century would arouse the dangerous resentment not merely of the colonies themselves but of the whole of the foreign world. To treat the whole Commonwealth as one in trade relations is, therefore, manifestly impracticable—a fact which has, indeed, been recognised already by the British Government in its tariff policy—and we would thus do well to retain the utmost freedom of action by allowing at least the possibility of differential preferences within the Commonwealth. Such a course would not be the novelty that it appears at first glance, for it is the established practice of the Dominions themselves.

VI. CONCLUSION

LET us now sum up what seem to be the fundamentals of any system of imperial trade regulation, including preference, which is to be of lasting value. It must take into account the fundamental economic policies of the participants, including the balance between their industry and agriculture, and their commercial relations with the rest of the world. Once those essentials have been determined, it should imply a progress towards a lowering of tariffs and the breakdown of economic nationalism generally; it must expand rather than diminish the volume of world trade. While for the time being it may injure third parties it must not be directed against them, and must leave them an opportunity of participating in preferential advantages in exchange for equivalent undertakings. It must not be of such complication or duration as to tie the hands of any party unduly in its trading relations either within or outside the Commonwealth. Above all, it must be based on the principle of mutual advantage and free consent.

We believe that with the goodwill that has already manifested itself, and with careful preparation by experts

Conclusion

and consultation between representatives of the industries affected, those ideals can be maintained. With them to guide us, at least a start can be made towards the development of the Commonwealth as a real economic entity with a policy and a purpose of its own. Outside the field of tariffs there is more than a little to be done. The research, investigation and scientific study carried out by the Empire Marketing Board and the Imperial Economic Committee might be organised on a broader scale. Marketing and advertising, especially of British manufactured goods in the Dominions, are questions that must be raised either at the Conference or by direct contact among the interested parties. The work begun by the British Engineering Standards Association and the British Standards Institution should be "boosted" into standardisation for the Empire, a measure which would do more for the expansion of British manufacture than many an imposing tariff reduction. Imperial co-operation is overdue in many spheres, including those of the film industry, telegraphs and broadcasting. Even if the decision goes against setting up a permanent central organisation, more frequent contact among the economic advisers of the several Governments will be essential if there is to be any real imperial economic policy, and in particular the prejudices and personalities of Whitehall must no longer be allowed to prevent the organisation of an imperial statistical bureau, or at least the assimilation of imperial statistics to a common standard. Above all, dangerous or futile as such a course may seem, the question of migration and settlement must be discussed in some form or other, because until it is settled the economic future of the Empire remains hazardous and its economic policy a makeshift. In all these matters Ottawa presents an unexampled opportunity. Let it not be lost or abused for want of foresight or preparation.

CHINA, JAPAN AND MANCHURIA

I. THE MANCHURIAN PROBLEM

MANCHURIA is a land of opportunity. It aroused in Russia dreams of a Pacific Dominion and offered her a warm-water port for the development of eastern Siberia. Its empty spaces and vast resources have since held out to Japan the apparent solution of pressing domestic problems. And China alone of the three Powers concerned seemed to be unaware of its crucial importance. From 1896 down to very recent years the political weakness, venality and shortsightedness of successive Chinese Governments gravely impaired the rights of China in Manchuria and gave Russia and Japan opportunities of aggression which they were not slow to use. The history of Manchuria since the Sino-Japanese War of 1895 is well known and will not be retold here ; but, in estimating the real situation created by the events of the past forty years, we may epitomise the story by saying that Russia, France and Germany saved Manchuria for China by forcing Japan to relinquish the Liaotung Peninsula in 1895, that Japan in her turn did China an even greater service by driving Russia out of South Manchuria in 1905, but that in the years which have followed Japan has often given China and other interested Powers reason to suspect that the final aim of Japanese policy was the political as well as the economic control of Manchuria either by a veiled protectorate or by annexation outright. The action of Japan in annexing Korea in 1910 gave force to the suspicion.

The Manchurian Problem

Only late in the day did the Chinese Government awake to the danger, and when it awoke it found that its fundamental rights and its essential interests in Manchuria were heavily mortgaged and its power to redeem them quite inadequate. Thus the legacy of the past makes the problem of to-day; and no treatment of it will be effective which does not take account of the character of the legacy. Whether the means taken to achieve certain ends by Japan and China in Manchuria be regarded as fair or foul, competent or incompetent, the heart of the problem lies in a conflict of indisputable rights. More than once the Chinese have signed away their rights under the duress of force or bribery, but that does not impair the legal validity of Japanese interests thus created, which are founded on treaties that any law court on earth would recognise as binding on both parties. Public opinion, however, knows that treaties are not eternal, that they begin to decay before the ink is dry upon them, and that the problems they raise must be regarded in terms other than mere law. Once we take the dispute out of the region of strict legal right and look at it in a broader way we see that it is really a conflict between indisputable legal claims on the Japanese side and fundamental national rights on the Chinese. It is not the first time that there has been a difference between law and moral justice; and we have learned in our history that resistance to the law is sometimes the way to get justice. But those who resist the law must know what they are doing—which has not been the case with much of the Chinese resistance to Japanese rights in Manchuria. The plain fact is that the Chinese feel that unless they oppose the extension of Japanese control in Manchuria by every means in their power, both legitimate and illegitimate, their future as the real owners of Manchuria will be seriously prejudiced, while the Japanese refuse to allow their great enterprise in developing the resources of the country to be injured by Chinese disorder.

The foundation of Japanese rights, in the treaties of

China, Japan and Manchuria

1905 with Russia and China, and of 1915 with China alone, buttressed by agreements (public and secret) regarding military and railway questions, is well known. These documents have been made available to the public in a score of volumes, of which the latest is Mr. C. Walter Young's standard work.* Moreover, when it appeared that the Chinese Foreign Office was inclined to deny not only the validity but the existence of one of the more important secret agreements, the Japanese Government announced (January 14, 1932) that the agreements were privately communicated to the British and American Governments soon after their signature, *i.e.*, in 1906, and had been originally withheld from publicity by request of the Chinese Government itself. This statement has not so far been denied by the Chinese Government and may, with reservation, be accepted as true for all practical purposes. Therefore the legal basis of the Japanese case cannot be seriously questioned, and until the treaties and agreements, one or all, are amended or denounced there can be no effective change in the situation. But, while the treaties are the legal instruments of Japanese rights in Manchuria, there is something more vital than a legal claim in the motive which inspires Japanese intransigence whenever any Manchurian issue is raised. The generation which was brought up to believe, and fought the Russian War in the belief, that Manchuria was the land of salvation, is still alive, and though the failure of Japanese colonisation has shaken one of the main pillars of that faith, there are still strong material reasons to support it. Sentiment, too, is a powerful factor. The chief glories of the Japanese army are enshrined in Port Arthur and the battles of the Manchurian War, and in many a temple throughout Japan there are images in bronze and iron, cast from Russian weapons, that remind the worshippers, young and old, in a way in which the Achilles statue in Hyde Park has ceased to remind England, of

* *Japan's Special Position in Manchuria*. (The Johns Hopkins Press, Baltimore, 1931.)

The Manchurian Problem

victories hard-won over a once dangerous foe. And if the blood of Japan was poured out to protect the homeland from a foreign danger, the treasure of Japan has since been spent to foster the asset thus acquired.

In the years immediately following the Manchurian War, Japan believed that she could send the surplus of her rapidly growing population to find new homes in the rich open spaces of Manchuria. The policy of the Manchu dynasty had closed them to the Chinese within the Great Wall, and, with the Russians driven back north of the Fengtien border, a region capable of holding twenty million settlers lay open to the hungry Japanese peasant. The Japanese Government left nothing to chance, knowing perhaps that the small cultivator would require some inducement, backed by official pressure, to uproot him from his home in Japan. Those were the days before the great expansion of Japanese industry, and though the spectre of overcrowding was no more than a cloud the size of a man's hand on the horizon, it had begun to disturb far-seeing minds. Moreover, the Government realised that the legal rights of Japan in Manchuria would receive an immense reinforcement if, in the course of a generation, the land could be filled by their own people. So the Oriental Development Corporation, founded in 1908 to perform the task of Japanese colonisation in Korea, was authorised to extend its colonising enterprise to Manchuria in co-operation with the newly created South Manchurian Railway Company.

The task proved beyond their power, but before they confessed failure a new factor came in to offer consolation. In 1910 Japan annexed Korea, and the Korean peasant was thenceforth cast for the part originally assigned to his Japanese brother. By the act of annexation the Koreans passed under the Crown of Japan, became Japanese citizens and acquired extra-territorial rights in China. Thus transformed they could be employed as useful pawns in Manchuria. Their extra-territorial character gave them immunity from Chinese taxation and from administrative

China, Japan and Manchuria

or judicial interference with their liberty, and conferred on them the right to settle in Manchuria, while their natural habits made them more effective competitors with the Chinese in agriculture and other occupations than the Japanese could ever hope to be. Given a sufficient lapse of time, their prolific powers would people the empty land and China would awake one day to find that her three eastern provinces over the Wall were gone for ever. It was a pretty plan, designed with no little sense of reality, and it so far succeeded that there are now over 600,000 Koreans in the country. They have not done all that was expected of them and might have done more. They cannot be described as the zealous and devoted agents of the new plan, for though they do not love the Chinese, they have stronger reasons for hating Japan, and they could not be trusted to pick the chestnuts out of the Manchurian fire merely for the *beaux yeux* of Tokyo. Hence a slower *tempo* in the whole proceeding, which delayed the fruition of Japanese ambitions and, by so much the more, saved the interest of China. Had the colonisation of Manchuria by Koreans and Japanese from 1910 to 1920 proceeded at anything like the pace at which the Chinese migration subsequently moved between 1925 and 1930, the situation would be different to-day; but whereas in these five years at least three million Chinese went to Manchuria, in the previous twenty less than three quarters of a million Koreans and a quarter of a million Japanese had effectively settled there.*

The failure of this colonisation plan led Japan to lay a somewhat different emphasis on the value of Manchuria. Japan's place in Manchuria first and foremost is politically essential to her because it keeps Russia out. Its second value is the investment she has made there, which is to-day reckoned at £214,000,000; but not all of this

* In 1930, according to the *Manchurian Year Book* for 1931 (published by the East Asiatic Economic Investigation Bureau, Tokyo), the population of Manchuria consisted of 28,259,873 Chinese, 607,119 Koreans, 228,810 Japanese, 102,198 other races.

The Manchurian Problem

is really Japanese money, for £16,000,000 of it in sterling alone originally came from the pockets of British investors who took up the bonds of the South Manchurian Railway; and a further large sum, both in sterling and in United States dollars, is now invested in Japanese government bonds and other paper which in fact represent interests in Manchuria. The total foreign investment in Japanese undertakings in Manchuria is difficult to estimate, but it must be an appreciable proportion of the whole. The third value of Manchuria to Japan is (a) as a source of vital raw materials and (b) as a market, on which a brief description of the economic situation of Japan will throw some light.

The essential domestic problem for Japan is to find sustenance and elbow room—perhaps one ought to say sustenance or elbow room—for her increasing numbers. The natural increase in her population is 700,000 per annum, for whom she must either open new fields of emigration or secure new markets. In either case her domestic problem dictates her foreign policy, and, as emigration has practically failed, her foreign markets and her sources of supply have become ever more vital to her. In 1913 she imported about 4 per cent. of her consumption of rice, in 1928 the figure had risen to over 16 per cent.; she imports practically all the raw cotton she requires; and of the iron ore consumed in Japan proper, 91 per cent. came from outside sources in the five years ending December 31, 1930. To pay for her yearly increasing imports of metals, coal and food, she must export produce of her own making, chiefly raw silk and cotton manufactures: so that the Japanese position to-day is that raw silk is raised and exported (mainly to America) to pay for imports of raw cotton, which is made up into yarn and cloth and then sold abroad to pay for the rice, beans, coal, and heavy metals which Japan is obliged to buy in foreign markets. Her invisible exports (*e.g.* shipping services, etc.) play some part in balancing the account, but the returns they give are not likely to increase so largely as to fill the gap. The foundation upon which

China, Japan and Manchuria

her foreign trade stands is too narrow to be safe. Two staples, silk and cotton goods, amount to over 60 per cent. of the total exports ; and two countries, the United States and China, are the markets for more than two thirds of the exports.

China, sharing with the United States the bulk of Japanese exports, is therefore one of Japan's most important markets. But, as the Yangtze Valley and South China take the major share, North China can claim only the lesser part ; and when from Japan's trade in North China we deduct that which proceeds to the interior *via* Tsingtao and Tientsin, there remains for Manchuria only a fraction of the whole. The total exports from Japan to all destinations in 1929 were yen 2,149 million (over £200 million*); her exports to Manchuria were 138 million Haikwan taels (roughly £17 million*), which means that Manchuria takes 8 per cent. of Japanese exports. As an existing market it thus has a comparatively small value, whatever may be its prospective value in better times when Chinese immigration has filled its empty spaces. For purposes of comparison—and to place the whole hyperbole of Manchuria in its proper perspective—we put on record the fact that Japan's export to the United States is worth six times as much as her export to Manchuria.

As a source of supply for Japan, Manchuria has a somewhat different tale to tell : for in 1928 Manchuria supplied one third of her pig iron (British India supplying one half) and two thirds of her imported coal. Of iron ore Manchuria supplied none, the whole import being divided almost equally between China proper and the Straits Settlements. Of the soya bean Japan takes twice as much from Manchuria as from any other area ; but a still greater part of the total Manchurian production goes to Europe and America.

* Conversion from these currencies into pounds presents very difficult problems, as the yen was not at that time anchored to gold and the value of the tael fluctuates with the price of silver. The figures in sterling have been inserted only in order to give the English reader a rough idea of the magnitudes involved.

The Manchurian Problem

Thus it is to be concluded that the economic value of Manchuria to Japan is considerable, but by no means so great as is often assumed. As a source of coal and the heavy metals it is important, and from the point of view of supplies in time of war even more valuable if not vital; as a source of food supply it is not negligible; but as a factor in the total trading interest of Japan it cannot for one moment be compared with China proper, or the United States; while even India is a better customer than Manchuria. And when we reflect that the trade of Great Britain with Manchuria is £7,000,000 it will be seen that our legitimate stake in the future of the country is no mere thistledown and that the Japanese claim to an exclusive interest finds little support in cold fact. We have good reason to insist that in any negotiation between China and Japan the "Open Door" shall not be closed.

Let us now resume the general argument. The colonisation policy, having failed to transplant Japanese settlers to Manchuria, achieved a limited success with the Koreans; but even this partial success had awkward consequences for Japan. It added a new point of friction to the rapidly deteriorating relations with China, and in 1931 led to a series of incidents in south-eastern Manchuria, in certain districts north of Chang Chun and in Korea itself which materially contributed to the present crisis. Disputes between Korean and Chinese farmers over irrigation rights and other things provoked disturbances near Chang Chun, as well as south of Mukden, and led to anti-Chinese riots in Seoul and Chemulpo. Strongly worded notes passed between Nanking and Tokyo, but their importance was soon overshadowed by the greater crisis to which we must now turn.

China, Japan and Manchuria

II. THE TROUBLE SPREADS SOUTHWARD

THE general situation in Manchuria has undoubtedly deteriorated during the last three years. Three causes appear to operate. After Marshal Chang Tso-lin's death his son exercised a weaker control and disorder grew apace. In the second place, the economic depression of the world depressed Manchuria because of the lessened demand for her major products, and thus created new unrest among the peasants. In the third place, the advance of the revolutionary sentiment from the south introduced a political factor of disturbance which had hitherto played but a limited part. And it ought perhaps to be added that Japan is not guiltless of allowing her agents to play the part of *agents provocateurs* in the general *mêlée* of banditry, economic distress and intrigue. As this condition developed, the long controversy over Manchurian railway questions came to a head. The Chinese had, for some years, openly violated the terms of the original railway agreements of 1905 and 1915 and had pushed forward the construction of lines avowedly designed to compete with the South Manchurian Railway and to make the port of Hulutao the rival of Dairen. Against this violation the Japanese Government has never failed to protest and has used every device in its power to persuade or compel the Chinese to desist, or at least to confer with the directors of the South Manchurian Railway upon the whole problem. At the same time, successive presidents of the S.M.R. have declared that there is room for all the railways now operating or planned, but that their economic co-operation will be impossible if they are not co-ordinated.

Last June a new president of the S.M.R. was appointed in the person of Count Uchida, a former Foreign Minister. The Japanese press had expected to see a business man placed in the post, and saw in the choice of a politician so

The Trouble Spreads Southward

eminent a new proof of the importance of the whole Manchurian problem and a sign that the Japanese Government hoped to secure a settlement by amicable means. It was announced at the same time that a Sino-Japanese joint committee had been set up to investigate railway construction, and, in the semi-official words used in Tokyo, Japan intended to "spare no effort to reach a comprehensive settlement." The principal Chinese delegate at the proposed conference was Kao Chi-yi, whose antecedents did not inspire much confidence. Mr. Kao was that confidant of the Young Marshal Chang Hsueh-liang who in December, 1928, in the ante-chamber of the Marshal's dining-room, had shot Chang Yin-huei, the Tuchun of Heilung-kiang, and had received as his reward the reversion of the latter's lucrative post, the directorship of the North-Eastern Railway Commission, which controls all the purely Chinese railways in Manchuria as well as the Chinese interest in other lines. During the weeks that followed Count Uchida's appointment eight months ago negotiations for the proposed conference were undertaken, and at a preliminary meeting the opening date of the conference was decided. But when the day came, Kao Chi-yi was not to be found. Mukden was combed out for the missing director and he was eventually run to earth in a strange resort, but once more gave his trackers the slip and has not since appeared in Mukden. For meanwhile events of greater moment put the conference out of men's minds.

It is significant that at the time when the conference was due to meet Japanese feeling in Manchuria was running very high, and that the S.M.R. Board had declared that it might be necessary to "discipline" some of the more ardent Japanese patriots in order to calm the atmosphere. Their endeavour was to convince Mukden, Nanking and the world in general of the sincerity of their attempt to establish a co-operative policy, and to prove beforehand that if the attempt failed Tokyo would not

China, Japan and Manchuria

be to blame. But the events related in the December number of *THE ROUND TABLE** not only destroyed the railway conference but aroused the suspicion that persons in high position both in Manchuria and in Tokyo had never any intention that it should succeed. In this matter, as in many others, the dual character of the Japanese Government, whereby the Foreign Office and the fighting services pursue conflicting aims, was well illustrated, and one of its results is that the Japanese case loses much of the international support that it otherwise deserves. This does not mean that the general admiration of Japan's economic achievements in Manchuria would make the world approve of a Japanese annexation; still less does it suggest that any other final result is probable, possible or justifiable except a Manchuria wholly Chinese; but it implies a genuine desire to see the claims of Japan, based on past agreements, justly treated. The Japanese have themselves endangered their interests more heavily than any Manchurian bandit or even Mr. Kao Chi-yi himself could ever do, and have beclouded their own rights by intemperate action. The plea of Chinese obstruction, procrastination and disorder, while pointing to the radical cause of all this evil, is no more than an excuse on the lips of the military party in Japan, who, *more suo*, have taken the wrong way of dealing with it.

Had the Japanese Government conducted its policy in Manchuria in 1931 with greater restraint and foresight the trouble would not have spread to the Yangtze Valley and thence to the rest of the world. The trouble did so spread for reasons that are well known. As already shown above, the authorities of the South Manchurian Railway have never failed to protest against Chinese violation of the railway agreements of 1905 and 1915; but with every Chinese attempt to evade the issue raised by their own railway policy Japanese impatience grew. Though Japan felt she had a serious grievance against China in this

* *THE ROUND TABLE*, No. 85, December 1931, p. 91.

The Trouble Spreads Southward

matter, she refrained from strong action until disorder in Manchuria actually threatened the physical security of her own railway. Last year the South Manchurian Railway was attacked by bandits almost every week; and as the Japanese believed they could get no redress from the Chinese Government they took matters into their own hands. But it seems very likely that the Japanese military authorities in Manchuria went far beyond the first intention of the Government in Tokyo, and they took such drastic action that Chinese reprisals were provoked in the form of the boycott all over China, and especially in Shanghai.

Shanghai became the centre of disturbance because in it Japanese interests are greater than in any other part of China, because there were more Japanese goods to interfere with and because the more extreme forms of Chinese nationalism are there at their strongest. In a word, Japanese interests in Shanghai offered to the Chinese boycotter a big target at which he naturally aimed his shafts. Naturally, too, though unwisely, the Japanese retaliated by attacking the centres of boycott organisation, which lie in Chapei. Thus, though the direct connection between Manchuria and Shanghai is not at first obvious, disorder in Manchuria provoked Japan to act, Japanese action in its turn provoked the Chinese boycott, and the boycott set Shanghai ablaze.

By their fatal failure to foresee the political consequences of an undefined military policy the Japanese are now on the defensive before the opinion of the whole civilised world, and a problem capable of treatment by firm and patient political action has become a danger to the common peace. The Japanese have themselves to thank if the Powers seem now disposed to take a hand in the Manchurian settlement. Henceforth it will not be possible to pretend that Manchuria is the parochial cockpit of a local conflict or a preserve of Japanese colonial capitalism in which she can do what she likes regardless of Chinese or other interests. The imperialist nationalism

China, Japan and Manchuria

which rules the mind of the General Staff and the secret powers near the throne in Tokyo must give way to a more temperate, less exclusive philosophy, and the Japanese nation must understand that the collective system of international co-operation has come to stay.

It is true that the treaties of 1905 and 1915, on which Japan takes her stand, directly concern China and Japan alone : for no other Power was a party to them : and in strict punctilio Japan may conceive herself justified in excluding any other participation. For ordinary practical purposes such bilateral procedure would not be criticised by any other authority, not even the League. But when the subject has proved intractable, when a new and vastly more important international instrument than any Manchurian treaty has since been created in the Covenant of the League for the handling of such disputes, when, moreover, both parties to the dispute are also signatories to the Covenant, the case is profoundly altered. At no time during the making or signing of the Covenant did Japan challenge its jurisdiction in the Far East ; she made no attempt to restrict its operation, in the way she endeavoured to exclude from the Consortium Agreement, for instance, certain of her Manchurian and Mongolian undertakings ; and, at the very height of this Far Eastern crisis, one of her own representatives (Mr. Sato) acted as the mouthpiece of the League in the Polish-Ukrainian controversy. In all this Japan has cut the ground from under her own feet, and her refusal to permit any third party to play broker in the Manchurian dispute cannot be accepted. It presumes the right of Japan to dictate as in 1915 the manner in which this negotiation shall proceed and to prejudice, indeed to determine beforehand, the issue of all negotiation ; it denies the existence of any international interest in Manchuria ; it is deliberately adopted as the easiest way to exploit the weakness of China, and it robs Japan's signature of the Covenant and the Kellogg Pact of much of its moral value.

The Trouble Spreads Southward

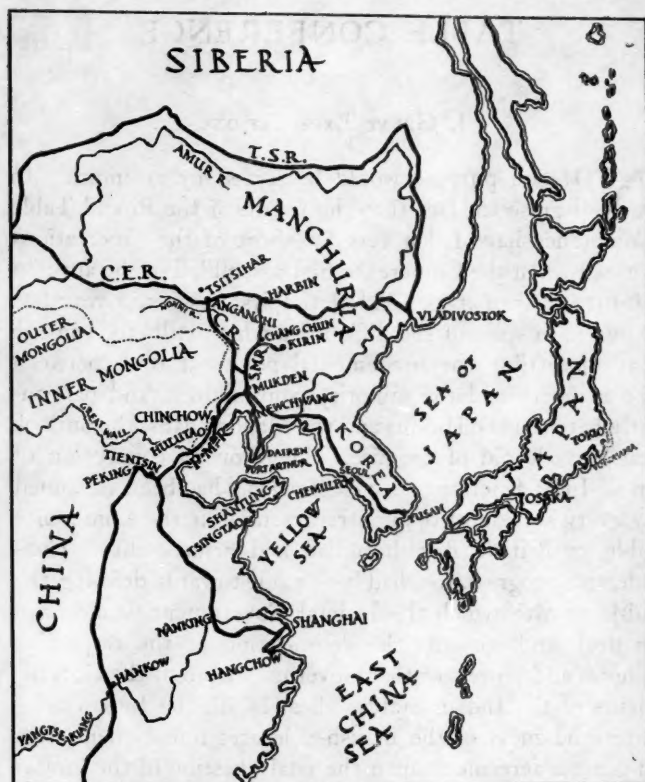
The Council of the League itself is much to blame. Making full allowance for the need of caution in handling the Manchurian dispute, making further allowance for the knowledge that some of the Chinese had offered Japan at times the greatest provocation, it is difficult to believe that the Council of the Stresemann-Briand-MacDonald days would have acted so feebly. The Council is not an executive body, but it allowed at least one opportunity to pass in which action would have had an executive effect. When the Japanese forces were proceeding westwards from Mukden last autumn, the Council could have interposed to set up the nucleus of a neutral zone by placing in Chinchow an international garrison drawn from the ships and battalions of the Treaty Powers, members of the League, then serving in the Far East. Such action would have calmed the situation at once and much of the tragedy since enacted would have been averted. To-day the re-entry of the League upon its path of international duty depends more on the success of Anglo-American intervention in Shanghai than upon the Lytton Commission. If and when the Shanghai incident closes without war, the League must act with greater resolution; and when the Lytton Commission reports, the Council and the world ought to be in possession of a comprehensive review of the Manchurian problem more complete, up to date and authoritative than any that has yet been made. The Lytton Commission was created by unanimous resolution of the Council on December 10, 1931, in order "to contribute towards a final and fundamental solution by the two Governments of the questions at issue," and it is empowered "to study on the spot and to report to the Council on *any* circumstance which, affecting international relations, threatens to disturb the peace between China and Japan or the good understanding between them on which peace depends." Theirs is a wide mandate indeed!

To this resolution both China and Japan made certain

China, Japan and Manchuria

reservations, but none of them touched the fundamental function of the Commission, and, although either party may hereafter demur to the conclusions of Lord Lytton and his colleagues, neither of them can repudiate its part of responsibility for setting in motion an engine of international enquiry which may carry them both far from where they now stand. It goes without saying that, if the Lytton Commission plays the part assigned to it with a statesmanlike insight, the partisans of extreme nationalism on both sides of the China Sea will gnash their teeth, for no honest enquiry can give either of them a clean sheet; but the partisans of a just settlement will all the more rejoice. The Lytton Report may yet prove to be the means whereby Japan will discover that the dual character of her Government is fatal to sound policy, and China will learn that her domestic peace and her place in the family of nations cannot be secure until her people establish a government of real authority over them.

SKETCH MAP OF JAPAN, NORTH-EASTERN CHINA AND MANCHURIA



- C.E.R. stands for Chinese Eastern Railway (Sino-Russian).
- S.M.R. stands for South Manchurian Railway (Japanese).
- T.S.R. stands for Trans-Siberian Railway (Russian).
- C.R. stands for the combined Chinese lines, some built with Japanese capital, some with Chinese capital, which are intended to compete with the S.M.R.
- P.M.R. stands for Peking-Mukden Railway (Chinese).

NOTE.—Only the main-line through railways have been marked on this map. For fuller information on the railway position in Manchuria, see the ROUND TABLE, No. 70, March 1928, p. 256.

THE RESULTS OF THE ROUND TABLE CONFERENCE

I. GREAT EXPECTATIONS

NO good purpose would be served by attempting to disguise the fact that the results of the Round Table Conference have fallen very far short of the expectations formed when the Conference first assembled in the autumn of 1930. Even at the end of the first session, a year last January, in spite of the difficulties which still stood in the way of settling the fundamental points at issue between the majority and the minority communities, and particularly between the Hindus and the Mahomedans, the outlook was not devoid of promise. The glowing conception of an all-India federation had emerged and had been acclaimed by every section of opinion represented at the Conference table, by British, British Indian and Princes alike. Considerable progress, too, had been made towards defining the subjects with which the Federal Government would have to deal, and towards the delimitation of the respective spheres and powers of that Government and of the Governments of the Indian States. Best of all, the Indian delegates and most of the British delegates found themselves in general agreement upon the vital question of the limitations to be imposed upon the autonomy of the Federal Government when it came into existence. In other words, the thorny problem of safeguards concerning defence, external relations, finance and commerce appeared to be well on the way to solution. It is true that the British Conservative delegates reserved their opinion on this crucial matter until they could see the picture of the future government as a whole, and know exactly what they were being asked to agree to. Nevertheless, as the speeches of

The Cold Fit

Lord Peel and Sir Samuel Hoare showed, the Conservatives were deeply impressed by the unanimity of the Indian delegates on the question of an all-India federation, and were fully aware of its possibilities. They realised that an autonomous political unit of this kind would bring far greater stability than could be expected if British India were to stand alone. Thus, when the first session of the Round Table Conference ended, there were strong hopes that the basis of an agreed constitution for the whole of India would be reached at a later session. But for the problem of minority safeguards, the confidence would have been almost complete.

Compare this situation with the circumstances in which the second session of the Conference came to an end at the beginning of December, and—a still more painful contrast—with the condition of India to-day. Why were the hopes of the first session not fulfilled, and why have things come to the present pass in India ?

II. THE COLD FIT

TO answer these questions it is necessary to turn to developments in India during the interval between the end of the first and the beginning of the second sessions of the Conference, that is, between January and September. The essence of these developments can be put in a single sentence. The unanimity on the question of an all-India federation, which was the outstanding feature of the first session, had been steadily melting away. This disintegration started in more than one quarter at the same time. In the first place, Hindu-Moslem relations became more and more strained as the weeks went by. The terrible affair of Cawnpore, the trouble at Benares, the first outbreak in Kashmir, and the rising tide of Mahomedan feeling consequent upon these and other events resulted in a prodigious amount of political activity among the Mahomedans.

The Results of the Round Table Conference

Hundreds of public meetings were held throughout the length and breadth of India, at which their spokesmen expounded their claims and the safeguards which Mahomedans must demand if they desired to maintain their civic and religious rights unimpaired in a self-governing India. And gradually, as was to become apparent at the second session of the Conference, the Mahomedans became so obsessed with the importance of these claims and safeguards that everything else was relegated to the background. The all-India federation lost its attraction for them, since they knew that, whatever weightage might be given to them in the federal legislature, the Hindus would still remain a strong majority. Moreover, they perceived that the inclusion of the Indian States in the federation would strengthen the Hindu position, since the vast majority of the people of those States are themselves Hindus. The Mahomedans, then, returned to the Round Table Conference last autumn with their minds set upon two things: first, the undesirability of proceeding any further with the idea of an all-India federation until their own claims had been conceded; and, second, a refusal to abate any jot or tittle of their claims. What these claims were we shall shortly see.

But it was not only on the Mahomedan side that the enthusiasm for federation had cooled between January and September. The Indian Princes who declared for federation at the first session asserted that they had no doubt that their views would be shared by the majority of their brother Princes. It is, however, difficult to find any confirmation of this prediction in the event, and during the summer one of the most important of the representatives of the Princes at the Conference, the Maharajah of Patiala, issued a manifesto in which he receded from the position that he had taken up at the Conference on the question of federation in favour of an alternative plan; briefly, this contemplated a closer union of the Indian States themselves through the medium of an improved and strengthened Chamber of Princes, which could act

The Cold Fit

for princely India as a whole *vis-à-vis* British India and its Government. It was, moreover, soon apparent that the Maharajah's revised views were meeting with considerable support from other Princes, and their Highnesses of Dholpur and Indore, to mention two of his more important supporters, joined their voices to his. In fact, it became increasingly clear that, as the implications—financial and political—of federation became better understood, the Princes liked the prospect less and less, and some even of those who did not declare against federation or favour the Patiala-Dholpur-Indore scheme have, nevertheless, asserted more narrowly the conditions on which they will go into federation.

Lastly, the All-India National Congress regarded the proceedings in London with undisguised disfavour. An all-India federation would obviously not be under their control. The Princes and the Mahomedans alone could, and would, see to that. In spite of the Irwin-Gandhi pact, the Congress working committee proceeded with their anti-Government activities and propaganda, afraid lest the promise of the Round Table Conference should be realised and their own position and prestige destroyed. The results already achieved by the Conference were derided by them, and the modifications of Indian autonomy, which Sir Tej Bahadur Sapru and the other Indian delegates were prepared to accept, fiercely denounced, with the result that some even of the moderate delegates began to feel that these modifications ought to be watered down. The Indian Princes also came in for their share of attention. Congress spokesmen emphasised the undemocratic character of government in the Indian States, and the duty of British Indian delegates to take up the cause of their peoples. Some measure of popular representation must, they urged, be insisted upon as a condition of the States being allowed to enter into a federation with British India. Congress orators even went so far as to say that the whole princely order would be swept away by them when India

The Results of the Round Table Conference

achieved her independence. Congress, then, had no helpful contribution to bring to the cause of all-India federation.

III. THE SECOND SESSION

THUS the second session of the Conference opened in ominous circumstances, and the presence of Mr. Gandhi, while it heightened the interest of its proceedings, did nothing to further its labours. He was, indeed, too deeply committed by his previous acts and declarations to be able to take a constructive part in work directed to the creation of a federal India which, though largely autonomous at the centre and almost completely so in the provinces, would have its autonomy restricted in some of the most vital of the Federal Government's functions. From the outset of the second session it was clear that the Mahomedans were more united and determined than they had been before, and it speedily became apparent that the initiative was in their hands. It will be remembered that the first session ended in a deadlock over the problem of safeguards for the minorities. That deadlock continued. The minorities sub-committee of the Federal Structure Committee met at once, came to no solution, asked for an adjournment, still came to no solution, and asked for another adjournment, which Mr. Gandhi, who had been acting as convenor and chief mediator, declared would be the last he would ask for. In due course, at a meeting of the Federal Structure Committee, he announced to the Prime Minister that he had failed to negotiate any compromise between the majority and the minority communities. His own attitude had not made the attainment of one very easy, for he steadfastly refused to listen to any proposal for a separate electorate for any community except the Mahomedans, the Sikhs and the Europeans. In particular, he was adamant on the question of separate electorates for the depressed classes, insisting that they

The Second Session

were Hindus and must be brought within the pale of Hinduism, both in religion and politics. The majority of the depressed classes would, no doubt, be perfectly willing to be regarded as Hindus, if the higher castes would treat them as such, and allow them access to the temples, schools, wells, public buildings, and so on. But their spokesman, Dr. Ambedkar, who was just as determined as Mr. Gandhi, though in the opposite sense, would not hear of any settlement which did not give his community separate representation, and on this point he broke completely with Mr. Gandhi. The depressed classes were solidly supported by the other minorities except the Sikhs, who were, however, concerned with only one province, the Punjab, in which they had made up their minds that the Mahomedans should not be guaranteed a majority on the Council, and who were superbly confident in their own ability to look after themselves. To the Mahomedans Mr. Gandhi was prepared to make very wide concessions, although, had the occasion to make these concessions actually arisen, he would have been strenuously and quite openly opposed by Dr. Moonje, the leader of the All-India Hindu Mahasabha, whom, with sublime egocentricity, he did not think it necessary to consult. However, the deadlock reached on the question of separate electorates for the depressed classes, Indian Christians and Anglo-Indians brought the negotiations to an end before the critical points at issue between Hindus and Moslems could be thrashed out. And these points raise fundamental questions. Their essence is not to be found in the Mahomedan claim for this or that percentage of seats in the central or provincial legislatures, or in the demand for a fair proportion of places in the government services, or in other lesser claims of a formal character. It lies in their claim for a statutory majority on the Bengal and Punjab Councils (their request that Sind and the North-West Frontier should become full major provinces with all their appanages in the way of governor-in-council and legis-

The Results of the Round Table Conference

lature had already been granted) and in the demand that the provinces should be vested with every power that could possibly be taken away from the central Government. The pith and marrow of their claims are there, for in this way they would obtain complete control over north and north-western India, since between Delhi and Patna lies a corridor which is still strongly Mahomedan, where the old traditions of Mahomedan rule linger. Secure in their control of this, the most important part of India—for it is the key of the land frontier—the Mahomedan could rest secure, confident that his culture and religion would develop and expand, and that he could protect the scattered minorities of his co-religionists in other parts of India. This, then, is the gist of the Mahomedan claim to-day, and it is easy to understand that, if it had come to the point, the Hindu representatives could not have granted it. The Sikhs, moreover, from the very beginning of the Round Table Conference, have never faltered in their determination to resist to the end any attempt to give the Mahomedans a statutory majority in the Punjab over all other communities combined. Here, too, there is complete deadlock at present.

This account of the difficulties of the minorities problem will help the reader to understand why the results of the Round Table Conference have hitherto been so disappointing. Still more important, it will enable him to realise the scope of the task before the British Government if it ever decides to settle the question itself in the absence of an agreed settlement between those concerned. Enough has, at all events, been said to show that at best His Majesty's Government can only impose a standstill arrangement, which could do no more than prevent this fundamental problem from becoming more and more insoluble as the poison of discord spreads.

Thus the Federal Structure Committee of the Conference—only this Committee and the Minorities Committee were summoned in the first instance—was

The Second Session

compelled to confine itself to the fringe of its subject, and to deal with more or less formal matters, such as the question, of the supreme court, of the division of powers between the two houses of the proposed federal legislature, and so on. The sudden and, from the point of view of the delegates, the lengthy interruption caused by the general election inevitably enhanced the formality of the atmosphere, for all the British delegates who were members of the House of Commons had to be away in their constituencies. The Indian delegates showed the most admirable restraint in these trying circumstances, and no praise is too high for the sense of patriotism, understanding of the difficulties of their British colleagues, and the devotion to duty that they showed. Lords Sankey, Peel, Lothian and Snell did work of incalculable value in helping their Indian fellow delegates to keep up their spirits, and to press on with such work as could be done under these trying conditions.

And one problem, the thorny question of federal finance, was examined during these days by a sub-committee of the Federal Structure Committee under the chairmanship of Lord Peel. Here again the Conference had to face delicate and important issues, for finance is the life-blood of politics, a subject which, the Princes knew, touched not only their pockets but their internal sovereignty. Naturally they walked warily and preferred to have concrete proposals, specimen budget figures and so on set before them, before committing themselves to any definite arrangement. The report of the sub-committee did not therefore put forward any scheme for a federal financial system for all India, but it did contain a survey of the problem and its difficulties, and it carried the matter an appreciable step forward with its proposal—unanimously accepted—that two committees should be formed to continue the investigation in India and to find out the facts on which an ultimate settlement would have to be based.

The Results of the Round Table Conference

But by the time that all this had been done and Parliament had reassembled, the life of the second session of the Conference was obviously drawing to its close. Yet the Conference had hardly even touched its main business—the great question of the degree of autonomy that should be given to the all-India Federal Government, in other words, of the safeguards that would be required by Great Britain and accepted by Indian nationalist opinion, and particularly by its left wing represented by Mr. Gandhi. Bound up with this problem were, of course, the vitally important questions of the safeguards and privileges claimed by the minorities, and of the place that the Princes were to occupy in the federation. Inside princely India, moreover, there was the further question of the relations between the smaller Princes and their more powerful brethren. None of these matters had been settled, and time was pressing. And at this point another deadlock occurred. The Mahomedans announced their definite refusal to discuss the question of autonomy at the centre and of British safeguards until the minorities problem, and especially their own claims, had been dealt with—until, in a word, they knew where they stood. Since the breakdown of Mr. Gandhi's negotiations with them and the other minorities, they one and all—with the exception of the Sikhs and a section of Indian Christians—had agreed upon a number of basic conditions which must be fulfilled before they would enter into a federation, and they presented to the Prime Minister a document signed by the leaders of the various minorities concerned in which these conditions were set out. There is no need to recite them in detail, for they simply reduced to black and white the fundamental claims that have already been discussed, and the actual percentage of representation claimed by the various minorities in the different legislatures—federal and provincial. This deadlock proved to be insuperable, at any rate in so far as the Mahomedans were concerned. The question of the degree of autonomy to be granted to the

The Second Session

all-India federation and of safeguards in the spheres of defence, external relations, finance and commerce was discussed, but the Mahomedans took no part in the discussion. It was impossible therefore for the Federal Structure Committee to report any definite conclusions on these matters.

In fact, it became clear towards the end of the session that the Mahomedans are not at present ready to proceed with any scheme of autonomy in Indian government outside the provincial units, and they made no secret of their attitude. The great majority of the Hindu delegates, on the other hand, would not have anything to do with this point of view, and, believing that His Majesty's Government was contemplating the introduction of provincial autonomy, leaving the arrangements at the centre virtually unchanged, they sent a strong protest to the Prime Minister and published it in the English press. Thus right up to the end of the session a state of uncertainty, disagreement and impatience persisted. There was an orgy of speech-making at the final plenary meetings, but it simply served to bring out the discordant, irreconcilable views which have hitherto made it impossible to construct any scheme which would apply all round, or have any chance of receiving general assent.

If Mr. Gandhi's name has entered little into this narrative it is because, apart from the fact that he represented the views of the All-India National Congress, he played a comparatively unimportant part in the proceedings. He had no constructive proposals to make, either at the meetings of the Conference or in his private talks with British politicians and others, and far from being the spokesman of all sections of Indian opinion he could not even speak as the representative of the Hindus; for the more constructive minds among them soon grew impatient at his academic utterances, whilst the other elements resented, and indeed openly repudiated, his claim to speak for the whole of India. There is little doubt that he could have

The Results of the Round Table Conference

played a great part had he chosen to turn his mind to construction instead of to destruction, and if he had set himself seriously to understand the point of view of the minorities. But in London, though he often seemed to be on the point of throwing his influence on to the side of construction, he relapsed into the rôle that he has so frequently played in India, that of destructive critic.

IV. THE RESULTS

AND so it came about that Mr. MacDonald's statement—the last act of this fateful second session—had on the whole to record a failure. It reaffirmed the determination of His Majesty's Government to do all that it could to assist the creation of such a federation of all India as the Prime Minister had foreshadowed when he closed the first session in January 1931. It also announced the decision of the Government to press on with whatever preparatory work could be done in the meantime—the revision, for instance, of the franchise was to be considered by a franchise committee, and the work of the two financial committees referred to above was to be continued. Further, a working committee of the Conference was to be set up in India to keep in touch with the Viceroy and, through him, with the British Government. The Prime Minister had also to announce that the sense of the Conference was against making any change in the constitution of India, such as the introduction of provincial autonomy, until it could be effected by a general statute as part of a comprehensive scheme covering the whole field of government in India. He dealt carefully with the minorities problem, hoping that the leaders of the various communities might be able to reach agreement among themselves, and he added that, if they did not, His Majesty's Government might have to put forward a provisional scheme.

The Results

Slight as these results are when compared with the hopes that were pinned upon the Conference, they are at any rate more satisfactory than they would have been had the British delegates made any attempt to exploit the deep differences that we have described. Much of the credit for keeping the Conference going at all is due to Lord Sankey and his British colleagues. Parliament also played its part nobly in the proceedings subsequent to the Conference, for it supported in ungrudging fashion the policy of the Prime Minister and the Government which is outlined in the statement discussed above. The House of Commons rejected Mr. Churchill's hostile amendment by a shattering majority, and the House of Lords, in regard to whose action it is no secret that the Government felt many qualms, accepted the statement of policy by a handsome majority after a debate in which Lord Irwin participated.

In the meantime, Congress has once more plunged India into unrest,* and other sections of political opinion have followed its lead. The Franchise and Finance Committees are likely to find much the same elements boycotting them as boycotted the Simon Commission. Some of the Liberals, and, this time, all the Mahomedans, will co-operate with the Committees, but the question inevitably arises, how long can we go on with our schemes of reform while large and influential sections of Hindu opinion boycott them and render the co-operation that we desire impossible? The Government of India must maintain order—Lord Irwin is just as strong upon this point as Lord Willingdon. The road to an all-India federation is by no means so smooth or so straight as many people imagined. That is the lesson of the Round Table Conference up to date.

* An account of events in India after the rising of the Conference will be found on page 322.

REPARATIONS IN PRACTICE

I. THE ECONOMIC ESCALATOR

SINCE the early autumn of 1929, when the stock market crash in New York released the brake from the forces that were already impelling prices towards their present disastrously low levels, the economic world has been slipping down a vicious spiral. At times its progress has been sickeningly swift, but every now and again descent has been checked either by normal counteractive economic forces or by special events like the Hoover moratorium or the institution of a coalition government in Great Britain, and there has intervened a period of quiescence and readjustment, if not of recovery. As these lines are written we are passing through just such an interval. There has been, in the past few months, no further catastrophic fall of commodity prices; indeed the depletion of stocks or the restriction of output has in some cases already brought about a rise. Emergency financial measures in the United States, whatever their ultimate effect, have at least checked the gloomy procession of bank failures to which we had become accustomed. Certain of the countries exporting primary products, including Canada and Australia, have succeeded in building up an export surplus in spite of the low level of prices. A new standstill agreement has just been signed for Germany, who by dint of the most painful belt-tightening has built up an export balance of trade sufficient to meet her current obligations for interest and sinking fund, though not for any considerable repayment of her short-term debt. The political situation in Europe, described

The Economic Escalator

at length in an earlier article,* if it bears all the signs of complete deadlock, has not grown perceptibly worse in the last month or two. But the comparative tranquillity of the moment must not lull us into complacency. The vicious spiral is unfortunately an escalator, which must carry us downwards, even though our relative descent is checked, until the movement is definitely reversed. With every month, every week that passes, hope ebbs away, scepticism sits more firmly in the place of confidence, and nearer and nearer comes the inevitable day of reckoning, when issues can no longer be evaded and readjustments must at last be made. If the times are not for us, they are against us; and if we are not recovering, we are sinking.

The economic world, it is true, is making its readjustments. Bankruptcies, exhaustion of stocks, reduction of wages, suspension of interest payments, devaluation of currencies, budgetary economies, changes in international trade balances—these processes are tending to bring about a new state of equilibrium, with several disastrous features such as colossal unemployment, it is true, but capable, if once an upward movement begins, of forming the basis of a new expansion of our economic life. Unhappily, no such expansion is yet in sight, because the confidence is wanting which is absolutely essential for its commencement and continuance. The lack of public and commercial confidence, resulting from political disturbance, operates both nationally and internationally. Certain countries, either because of their inherent economic strength or because of their abandonment of the international gold standard and the control of their balances of payments, are in a position to embark locally upon a moderate measure of industrial expansion without putting their international economic relations into serious jeopardy. The most obvious example is, of course, the United States, who, in spite of her recent heavy losses of gold, is quite capable of indulging in a programme of raising internal prices without doing

* See p. 227.

Reparations in Practice

any grave harm to her external balance of payments ; she is indeed launching a series of legislative experiments with the aim of assisting private banking enterprise, which has sunk into such a precarious condition that banks with liabilities totalling over \$2,000 million (£400 million gold)* have suspended payment since October, 1929. But so depressed is the state of public confidence that even these endeavours are likely to fail if nothing new transpires, in the field of public affairs, around which faith may crystallise. The initiation of inflation, except by the disastrous method of budgetary failure, requires a measure of confidence among business borrowers as well as easy credit conditions. In the international sphere, the efforts of one country to construct a new equilibrium in its international balance, by tariffs or exchange control or other measures, have frequently succeeded only in rupturing the equilibrium attained by other countries, who have been driven to still further restrictions, international trade meanwhile sinking lower and lower both in value and in volume ; as Sir Walter Layton recently observed, "Everything balances at zero." Normally differences in current balances of payments are financed by international lending, at short-term and at long-term, and this has been the proper and profitable method whereby the wealth of the world has been expanded. But now the freezing of one block after another of international banking assets, and the entire lack of confidence in the soundness of potential borrowers, have brought international lending to a standstill, and indeed the mere necessity of self-preservation has led many of the creditors to attempt repatriation of their funds as swiftly as possible. A slight revival of confidence, and repatriation might be arrested ; a little more, and short-term lending on self-liquidating security might be a little expanded ; still more, and a few long-term loans might become marketable. The paralysis of the international banking system is

* All conversions from foreign currencies, whether it is so stated in the text or not, have been made at former pars of exchange.

Reparations and the Crisis

caused by want of confidence, and the want of confidence is, in very large measure at least, caused by political difficulties.

II. REPARATIONS AND THE CRISIS

IF one were to ask any practical business man what single measure would do most to restore the confidence of lenders and to reverse the motion of the economic escalator, he would certainly answer: a settlement of the reparations and war debts question—though opinions would naturally vary as to what would constitute a just settlement. Assuming that he is right, it is as well to compare some of the magnitudes involved in order to convince ourselves of our folly in allowing this problem to drag on, apparently no nearer to solution than it was six months ago. The capital sum represented by the Young Plan annuities has been estimated at £2,100 million gold, which is roughly one half of the nominal value of British capital invested abroad and likewise about one half of our normal national income per year; the fact that in the course of the present crisis the industrial output of Germany has declined by about one third, that of the United States by one quarter, and our own by perhaps one fifth, is sufficient proof that the current loss of wealth in the world in a single year, through the continuance of the crisis, far exceeds the total amount payable in reparations over a period of nearly 60 years. The payments to the United States suspended in the Hoover moratorium year amount to £54 million, but the prospective deficit in the Federal budget for 1931-32 (before allowing for emergency taxation or economies) amounts to £436 million, notwithstanding the fact that there is no direct federal appropriation for unemployment relief. Great Britain's average annual receipts from reparations in the first 37 years of the Young Plan amount to £17½ million; whereas £114 million was paid in 1931 in unemployment

Reparations in Practice

insurance benefits. The direct and proportionate connection between these several items may be open to question, but at any rate it is beyond doubt that, whatever the direct financial effect of such a policy on national budgets, the sweep of the sponge on the reparations and war debts slate would, as the first move towards economic recovery, be financially advantageous to all concerned.

Let us, therefore, for the moment leave all political considerations aside and ask why the abolition of reparations in particular would be expected to have such disproportionate economic effects. The history of the payment of reparations from the German side, like the history of reparations in its political aspect also, can be divided into two periods, before and after the Dawes Plan. Up to 1923, Germany's internal budgets had not been regularised, and her external balance of payments likewise contained abnormal and unstable items. The transfer of capital assets already abroad did not, of course, present any exceptional problems in international exchange. A capital levy in 1919, and other measures of heavy taxation were not, however, sufficient to meet the other reparation demands of the Allies, based on the fantastic figures of capital liability that ruled in that period. Nor was the transfer of the actual cash payments across the international exchanges effected by dint of normal current items in Germany's balance. She had, in fact, a large inward balance of commodity trade. The speculation in marks alone—a process which left speculators outside of Germany with assets which afterwards became practically worthless—provided Germany with sufficient foreign exchange to meet her cash reparation payments. The Ruhr occupation, whatever its merits in convincing Germany that France was in earnest, was hardly an immediate economic success. Up to 1924, therefore, it is possible to say that both internally and externally the payment of reparations was at once the cause and the product of the catastrophic inflation of the mark.

Reparations and the Crisis

With the signature of the Dawes Plan in August, 1924, a new chapter began which lasted up to the beginning of the violent fall in prices and the reversal of international credit movements, two years ago. Confidence in the future of German economy was restored, and from 1924 to 1930 inclusive, Germany imported a net total of £900 million of foreign capital, including £450 million of long-term loans. These sums (except the Dawes Loan) were not lent with the direct object of furnishing the wherewithal to pay reparations. They were lent, for the most part, to German banks, industrial firms and local governments, which had no direct reparation debts. But they did two things: they provided the foreign currency for which the reichsmarks raised by the Reich Government could be exchanged, and they so far enlarged the annual income of the country that reparation dues could be raised without, for the moment, any enormous budgetary insolvency. A small proportion of the loans was undoubtedly spent on assets of an extravagant and non-productive character, such as the bathing establishments which have received such publicity in the American press, but by far the greater part was expended on the development of Germany's resources and the supply of working capital, of which Germany had been denuded by the inflation.

But while for the time being this régime worked satisfactorily, it was piling up dangers for the future. In the first place, despite the increase of wealth that the influx of foreign capital involved, and despite the budgetary measures imposed by the Dawes Plan, the German Government still found it difficult to raise sufficient taxation to meet both its internal and its external obligations. In the first two years of the Dawes Plan, special resources were provided under the Plan for the payment of reparations. Between 1926 and 1931, the Reich budget showed an accumulated deficit of £133 million, compared with an expenditure of £440 million on "external war charges," but in considering the German economy as a whole it is

Reparations in Practice

more proper to take the accumulated deficit, over the same period, of the combined budgets of Reich, States, communes and Hanseatic cities, which amounted to £220 million, or one half of the reparation payments. Thus while externally Germany was virtually not paying reparations at all, internally she was raising by taxation, after meeting other public expenditure, only one half of the sums required. This was only to postpone the day of reckoning. In the second place, the interest charge on the foreign debts that Germany was incurring was gradually piling up, until in 1930 it amounted to at least £40 million (even after deducting interest on German investments abroad), that is to say, roughly one half of the reparation charge due in that year. This again made the future most hazardous. Third, and perhaps most important, the supply of working capital in Germany out of foreign funds was fraught with grave dangers. Short-term loans, wholly secure and self-liquidating individually, could not be withdrawn in any great volume simultaneously without bankrupting the country. The entire German economic life was placed at the mercy of foreign creditors and of conditions of political confidence. Finally, German economy was built up on the basis of an adverse balance of trade, the maintenance of which depended on the continuous inflow of foreign capital, and the reversal of which would entail a devastating upheaval of the trading relations between Germany and her neighbours.

The effect of these considerations began to be felt when the flow of foreign investment, much curtailed in 1929, was almost entirely dried up in 1930. Between 1928 and 1930, Germany was forced to change an adverse balance of trade of £65 million into a favourable balance of £75 million. The effort of finding this new net export of £140 million was enormous, and reacted very unfavourably, not only on Germany's own economic condition, but also on that of the countries with which she trades. Imports from the United States, for instance, fell by about £35

Germany Under the Moratorium

million in the two years, while Great Britain, France and Belgium likewise saw a large reduction in their sales to Germany. The latter's principal reparation creditors, along with Scandinavia and the American continent, were also the chief purchasers of her increased exports; France and Belgium between them accepted £28 million more of German products in 1930 than in 1928, despite the fall in prices meanwhile. There can be no doubt that the pressure of Germany's efforts to secure an export balance considerably accelerated the precipitate fall of world prices in those two years. Thus the lesson that, in default of lending, which scarcely solves the ultimate problem, reparations can only be paid in goods, was being very painfully learnt. Germany did indeed obtain, in the Young Plan of 1929, a reduction of her annual reparation obligations as compared with the standard Dawes annuity, but the almost complete cessation of capital movements, the continued fall in prices, and the collapse of central European credit following the failure of the Credit Anstalt, so injured her capacity to pay that had Mr. Hoover not intervened with his moratorium proposal she would almost certainly have been forced to declare a suspension of payments, possibly beyond the terms of the Young Plan.

III. GERMANY UNDER THE MORATORIUM

WHAT has been the economic position of Germany since she was relieved for the time being, in July last, of the obligation to pay reparations? In brief, the Hoover moratorium, largely because of the doubts and delays that accompanied its ratification, did not succeed in restoring confidence in Germany's economic position. The want of faith of her creditors in her capacity to sustain the great burden of foreign debt she has incurred, and their general loss of liquidity owing to the incapacity of debtors throughout the world to meet their obligations,

Reparations in Practice

and the huge depreciation of securities in general, caused them to continue their attempts to withdraw funds from Germany. The arrangement of a credit of £20 million for the Reichsbank, and the application of other special measures to safeguard the short-term obligations, failed to stem the outward flow. The seven-Power Conference, held at the end of July to consider the financial difficulties of Germany, recommended a renewal of the Reichsbank credit, a concerted arrangement among financial institutions to maintain existing credits in Germany, and the summoning of an expert committee to consider her whole credit situation. These proposals were carried out. The credits were renewed. The experts committee published their report (commonly known, after its principal author and the chairman of the committee, as the Layton-Wiggin report) on August 18; they were unable to recommend any definite plans for the consolidation of short-term credits and the provision of additional working capital for Germany, for want of any firm political foundation, and they thought it essential that, before the prolongation of credits came to an end, the governments concerned should give to the world the assurance that international political relations were established on a basis of mutual confidence, "which is the *sine qua non* of economic recovery," and that the international payments to be made by Germany would not be such as to imperil the maintenance of her financial stability. In other words, they tossed the problem back to the governments. Meanwhile the banking creditors of Germany, in conjunction with representatives of the debtors, had drawn up an agreement for the general maintenance of short-term banking credits in Germany, subject to certain conditions, for a period of six months. The agreement, which was due to terminate on February 29, 1932, did not cover by any means all the short-term investments in Germany—indeed little more than one half of the total of nearly £600 million—and the conditions were such that about one fifth of the credits covered by the

Germany under the Moratorium

agreement were actually repaid before the end of the year.

It seems appropriate to pause for a moment and examine the character and distribution of the private and public indebtedness of Germany to foreign countries. A careful census taken by the Reich Government at the end of July, 1931, revealed the following figures : —

FOREIGN INVESTMENTS IN GERMANY*

In Millions of Gold £s.

Creditor Country	Loans from Banks	Other Short-term Loans	Long Term Loans	Total
United States ..	119	34	310	463
Great Britain ..	81	19	76	176
France	18	15	21	54
Holland	62	39	55	156
Switzerland ..	58	34	50	142
B.I.S.	38	—	—	38
Other countries ..	26	43	32	101
Total ..	402	184	544	1,130

These figures do not include investments in real estate, participations in private firms, and other forms of "direct investment," estimated by the Wiggin Committee at roughly £300 million. Perhaps the most striking points that emerge from the table—both very important in relation to the political treatment of Germany's obligations—are the enormous size of American investments, especially in long-term loans, and the comparative smallness of French participation. The non-banking credits included in the second column comprise for the most part the deposits of foreign commercial firms arising out of or for the purpose of carrying on business in Germany, and credits extended between industrial or commercial concerns and their subsidiaries or branches; it appears likely, therefore, that against the total of that column there may be set German credits of a like nature abroad, to at least a com-

* *The Economist*, Reparations and War Debts Supplement, January 23, 1932.

Reparations in Practice

parable amount. These non-banking credits were not covered by the standstill agreement described above, and some part of the subsequent drain of funds from Germany may be ascribed to their liquidation.

The strain placed upon the Reichsbank (which by an emergency decree has been given a monopoly of all foreign exchange transactions) is illustrated by the rough estimate of Germany's balance of payments adopted by the Young Plan Advisory Committee in December.

GERMANY'S BALANCE OF PAYMENTS IN 1931

In Millions of Gold £'s.

Credits		Debits	
Export surplus for year, including services and deliveries in kind ..	150	Reparations up to June 30	40
Utilisation of foreign assets of German banks ..	65	Interest and normal amortisation on liabilities abroad	75
Rediscount and other credits	60	Balance, representing capital withdrawn ..	245
Drawn from gold and de-visen reserve of the Reichsbank	85		
Total	360	Total	360

The Reichsbank's reserve, which stood at £131 million at the end of 1930, and even at £126 million at the beginning of June, 1931, had fallen by the end of the year to £57 million, of which £31 million represented the amounts due under the rediscount credits furnished by central banks and by the Bank for International Settlements. The successful effort to maintain the gold standard under these conditions demanded the most severe credit deflation in Germany, with consequent injury to trade and industry. The volume of unemployment at the end of the year was about 5½ million out of approximately 21 million employed persons. The maintenance of a large export surplus in spite of low prices and in spite of the adverse effects of exchange control, tariffs and exchange depreciation in

The Future

other countries, likewise imposed a severe strain on German industry. The emergency decrees of the Government have involved heavy sacrifices and stringent economies. The salaries of public servants have been reduced in eighteen months by over 20 per cent., and large increases of taxation have included the raising of the income tax and additional heavy duties on beer and tobacco. Considerable reductions have been made in the scope and scale of unemployment benefits, and contributions have been increased. The Government's programme, now being faithfully carried out, includes a general reduction of prices, wages, rents and interest on long-term obligations. The regimentation of Germany's economic life is thus steadily advancing in scope.

IV. THE FUTURE

ON November 19 the German Government declared, in accordance with the terms of the Young Plan, that Germany's exchange and economic life might be seriously endangered by the transfer in part or in full of the postponable portion of the reparation annuities. In endorsing this declaration, the advisory committee appointed by the Bank for International Settlements pleaded for the adjustment, without delay, of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world, as the only lasting step capable of re-establishing confidence.

Meanwhile the banking creditors of Germany had been negotiating a prolongation of the standstill agreement. The new agreement, extending for one year the undertaking to keep short-term credits in Germany except as allowed by the strict provisions regarding withdrawal, was signed on January 24. The schedule of future repayments is to depend on the transfer capacity of the Reichsbank, which in turn will be largely dependent upon the developments

Reparations in Practice

in the German export situation. Instead of a fixed schedule of repayments at fixed dates, the future determination of what can be repaid has been left to an advisory committee representative of the creditors, who will from time to time consult with the German authorities. The bankers observed, however, that

The credit problem is not solved when reluctant creditors agree to prolong credits out of consideration for the debtor who is embarrassed, and out of consideration for the general economic situation of the world, in which the debtor occupies a vitally important place. The credit problem is solved when creditors cheerfully and confidently continue credits which they might withdraw at their own convenience. The all-important thing is to restore the basis of credit. It is obvious that a settlement of Germany's international payments, which are now under discussion between the Governments, is a vital element in this problem, as indeed are the inter-allied debts, which are in intimate economic connection with them.

Thus the problem of restoring the German economy to health has once more been handed back by the bankers and the economists to those who alone are capable of providing a permanent solution—the Governments of the world. A mere prolongation of the present condition of suspense is not enough. The re-establishment of confidence is essential if the world is not to drag steadily down to disaster. Germany cannot long maintain her existing régime of severe privation, and even if she could, it is doubtful whether, in the absence of a big improvement of world economic conditions generally, that would be sufficient to prevent her being forced to declare a general moratorium on her foreign obligations and perhaps to subject a much larger proportion of her economic activities to direct government control. It has been estimated that in 1932 her obligation in respect of interest on foreign debts, together with normal amortisation on long-term debts, will amount to £70 million. Interest from German investments abroad may be set off against payments due on foreign "direct" investments in Germany. Thus a surplus of some £70 million on her balance of trade in commodities

The Future

and services is required to meet that first charge alone, not counting reparations or any provision for repayment of short-term foreign debt. In 1931 Germany's export surplus amounted to some £150 million, but it is doubtful whether it can be maintained for long at that level. Much of the exports of 1931 represented the accumulation of stocks by merchants abroad (in anticipation of tariffs or for other reasons) which will not be replenished on the same scale. Imports have already been cut down almost to a minimum. The devaluation of sterling and other currencies, systems of exchange control, and general increase of protective tariffs, including those of Great Britain, further injure the possibility of expanding exports. If the precarious structure now built up were to collapse, what would happen? It is, perhaps, possible to paint too lurid a picture of the financial crisis that would result in the creditor countries, but London and New York and the lesser centres would be forced at best to adopt new and exceptional restrictive measures, which in the case of London at any rate would gravely damage the existing financial structure. In Germany itself, even if inflation and the consequent political upheaval were avoided, the Government would be forced, in face of the growing stagnation of the country's economic life, to encroach still further on the sphere of private enterprise, already so gravely handicapped. The consequences of the virtual overthrow of the private capitalist system in such a highly developed industrial State can only be guessed at. It is obvious, at any rate, that the prospect of extracting reparations from Germany, delusive as it is at present, would entirely vanish. Considerations such as these, modified of course by necessary political factors, should weigh more heavily in the determination of reparations policy than speculations as to what Germany could pay under this or that set of ideal circumstances.

✓ THE UNITED STATES IN THE NEW YEAR

I. THE OLD YEAR

THE year 1931 found no mourners by its bier. The hopes that had stood by its cradle had vanished with the first touch of an unfruitful springtime. The prognosticators and the forecasters, the economists and the statisticians, the bankers and the writers of financial "services" who had cheered the last days of 1930 with the prospect of "recovery in 1931" were long ago put to rout. Just as no one in 1929 had been sufficiently pessimistic about 1930, so no one in 1930 was sufficiently pessimistic about 1931. The question now is, can anybody be sufficiently pessimistic about 1932? Are we in the transition period from one business cycle to another or are we going into a new epoch of civilization altogether? Will future scholars date from 1929 the decline and fall of western civilization—as we now hear on every hand—or will this depression take its place with those of 1837, 1857, 1873 and 1893 as differing rather in degree and outward phenomena than in cause or kind? It must be admitted that there is much—alarmingly much—to support the former view. The profound political reactions of the steady shrinkage in prices and incomes, the complete overthrow of all the equilibria of international trade, the powerful and mysterious changes in currency and exchange, all point to something infinitely larger than the routine expansions and contractions of the business cycle. If we

The Old Year

are being hustled helplessly to a new world what are to be its features and its landmarks? Where will its highways lead? No country ever faced a new year with more hopes and more misgivings than the United States at the dawn of 1932. So vital are the economic questions of the hour that even the identity of our next President becomes of very minor importance. He is significant only as a still unknown force in solving the depression.

And whatever may be the ultimate historical significance of the period through which we are passing, it certainly marks a change in all our moods and habits as striking and as sweeping as that produced by the war. Even those who have suffered no crushing material losses have felt the weight of the depression upon their spirits. Much of the reckless gaiety of the 'twenties has vanished with the paper profits. It may be that we are entering upon a sedater age, more cautious in its pleasures as in its investments. Perhaps Victorianism is due for a revival. There are already symptoms of it in the shops. Moralists in abundance preach to us on the sins of materialism and would have us believe that the depression is a "blessing in disguise." They recall to memory those spiritually minded men and women who saw in the war a great uplifting and purifying influence in a world too devoted to self and self. But to the rest of us a man dying on the battlefield in war, or from malnutrition in peace, attests so completely man's incapacity to deal with his environment that any talk of purification or blessings is the purest humbug.

Meantime the business writers and statisticians go on with their charts plotting the graphs of stock prices, bond prices, and commodity prices, inventing thermometers of business activity, recording car loadings, electric power consumption in kilowatt hours, and goodness knows what. It is astonishing to the layman to observe how carefully are kept the hospital charts of that great invalid, American business. And it must be admitted that the parallels between this and earlier depressions, in security and commo-

The United States in the New Year

dity movements, are so striking as to make one believe that it is easily possible to exaggerate the difference between this and the classic depressions of the last century.

If it is not too morbid let us look backward and see just what did happen to us in 1931. It was a year as spectacular as it was disastrous. The average prices of industrial stocks, which seemed incredibly low on January 1, rallied for a brief two months, but closed the year at a trifle less than half of what they were at its beginning. Railroad stocks fared materially worse—indeed, current quotations would suggest that the future of the railroads was in the past. Bonds, which are accounted the most conservative investments, still held on July 11 at an average price of approximately 92.70, but closed the year at 73.36, recording an unparalleled collapse. Commodities, which averaged on the Fisher index 77.7 for January, sank in December to 66.7, a drop of eleven points for the year and of 33½ per cent. from the base of 100 in 1926. Activity of steel mills, which never went above 57 per cent. in 1931, closed the year below 25 per cent. Automobile plants turned out two million cars as against nearly three million in 1930 and almost five million in 1929. It would be easy to multiply these statistics. The financial papers overflow with indices, each more discouraging than the last. But one needs no financial papers to sense what is happening. Unemployment in all classes of society, the impoverishment of those accounted rich or moderately rich, retrenchment in almost every family circle, and the sombre series of suicides, bring the depression home to everyone. At the dawn of the new year, it bestrides us inexorably.

Can one find anything reassuring to say about the *annus mirabilis* that is past? Undoubtedly yes, but the appraisal of the factors is as yet difficult. What is most important is that the united strength and intelligence of the nation are now arrayed, as never before, against the forces of economic destruction. There is no longer any evading the facts. We are faced with a major crisis as grave as the war and

New Year Remedies

in some ways more difficult, for there is no conventional technique for this new type of conflict. The Administration, the banks, business houses, industrial leaders, householders, even the labor unions, have banished all comfortable thinking and are trying to meet the emergency. Their failure—in some degree—seems assured; their success—ultimately and in essentials—is certainly not to be despaired of. We shall win the depression as someone said the war was won—"from the bottom up"—from the labor and sacrifice of the millions.

Reassuring signs appeared in the final quarter of 1931 in the shape of a rise in the price of silver and in sharply increased prices for wheat and other agricultural products. These price flurries have largely subsided, but they afford hope. The flicker of an eyelash may not be much, but it is always a good sign in a corpse.

II. NEW YEAR REMEDIES

AS for 1932, utterances are cautious. The people who predicted "recovery" in 1931 are making no such mistake to-day. Practically no responsible people are saying that another twelve months will get us out of the wood. Rather the feeling is that another twelve months will give us a clearer idea of bearings and direction in the wood, a knowledge of the trees, and a better capacity for woodcraft. Commodity prices are holding steadier, and the brief improvements of the autumn might return for a longer sojourn. Public attention is being focussed on the vital problem of our railroads. The powerfully organized and strongly entrenched railroad labor unions have stubbornly and thus far successfully opposed the wage cuts which are indispensable if the roads are to survive. But their opposition is generally believed to be weakening. The Interstate Commerce Commission and the public are coming to realize that the railroads have not been allowed to do well

The United States in the New Year

enough in good times to permit of their surviving unassisted in bad times. No less a tribunal than the United States Supreme Court has twice taken judicial notice of the depression, by recognizing that a rate decision of 1928 is not applicable to present conditions, and by setting limits to the powers of the Interstate Commerce Commission to dissipate operating revenues in rate-making experiments. In another decision it has set aside the attempt of a local government to compel the working by a railroad of an unprofitable line. Legislative recognition will slowly be accorded to the competition of other agencies of transportation so that trucks, waterways, airways and pipelines will ultimately come in for a certain amount of regulation and taxation, from both of which they are now relatively (though by no means wholly) immune.

On January 4, President Hoover delivered to Congress a message advocating eight measures to combat the depression, namely, the strengthening of the Federal Land Bank system, the creation of a reconstruction finance corporation to furnish credits otherwise unobtainable, the creation of a system of home loan discount banks, an enlargement of the discount privileges of the Federal Reserve Banks, the development of a plan to advance money to the depositors of closed banks, the revision of laws affecting railways, the revision of the national banking laws, and drastic economy in federal expenditures.

The project of the Reconstruction Finance Corporation has been realized with a celerity which attests the capacity of Congress to act promptly when the national welfare seems to be at stake. The new Bill creates a corporation with half a billion dollars of stock subscribed by the United States Government. It has the power to issue a billion and a half dollars in bonds or other obligations unconditionally guaranteed both as to principal and interest by the United States. Its policies will be dictated by three federal officials, the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Farm

Reparations and War Debts

Loan Commissioner, and four private citizens of whom General Dawes is already named. The corporation will make advances "fully and adequately secured" to banks and other fiduciary institutions in need of help. "Upon the approval of the Interstate Commerce Commission," the Corporation is empowered "to make loans to aid in the temporary financing of railroads." It may also accept drafts and bills of exchange arising from the actual export of commodities (except war material) already shipped. The provisions of the statute follow almost precisely those of the War Finance Corporation created in April, 1918, which was organized to assist in the conduct of the war but actually rendered its most valuable service in the depression of 1921-22 in enabling banks with slow assets to "carry" the existing loans of their former customers. The War Finance Corporation had a powerful effect in 1922. Public knowledge of its powers and resources restored confidence even before its funds were made available. And that, of course, is what is hoped now—to prevent the terrorized liquidation of everything, a liquidation which in the last few months has undermined public confidence and created its own causes. No circle in the last year but has been vicious.

III. REPARATIONS AND WAR DEBTS

SITTING with the new year before one, one goes back over the memories and phrases of the years gone by. What a nasty ironic shrew the muse Clio has become! How she has flung back in our teeth the lovely phrases of yesteryear. The "war to end war" might better have been christened a "war to perpetuate war." The world that was to be safe for democracy is so perilous and insecure that it is safe for no political system. "We shall soon," said Mr. Hoover, in accepting the Republican nomination on August 11, 1928, "... be in sight of the

The United States in the New Year

day when poverty will be banished from this nation." Mr. Hoover will have to write some new campaign speeches in 1932. The old ones will not do.

Some of the derided phrases read better now. There was the man who was shouted down for advocating Peace without Victory. But it was an old man who kept saying "*Je fais la guerre*" who carried that still vivid day, and "*Je fais la guerre*" still rings in our ears, the curse of the embittered dead upon the generation of their survivors. One wonders if man can ever attain the moral stature to conduct his own affairs. The issues of fate seem somehow more sharply drawn; the tragedy of our generation is to-day more stark, and more embittering. What of those thirty million young men who were killed or maimed? Where are the results worthy of their sacrifice or of the great and high emotions with which they made it? Surely if ever bankruptcy and failure were written across the page of history it is now. As in the 'sixties, we have resolved that those men ought not to have died in vain. But who can assure us that they have not?

It is to such melancholy reflections as these that one leaves the charts of securities and car loadings. And it is to such melancholy reflections as these that thoughtful Congressmen must have turned in the debate on the moratorium. The reparation question is a simple one. There is Germany condemned by the jury verdict of Versailles to pay an unsettled sum in damages when everyone agrees she can at present pay very little. Never mind how good the jury was or how just the verdict. The Young plan supplemented the jury verdict by fixing a schedule of annuities to extend to the year 1988 and to aggregate over twenty-seven billion dollars. We are now pretty well persuaded that a plan calling for huge payments extended over two entire generations is only a scrap of paper. The Hitlers will fight and the Hitlers will be, if not right, successful. Or more likely they won't fight but will merely talk. One need not go east of Suez for

Reparations and War Debts

passive resistance. If Americans will not give up their liquor because their own constitution tells them to, why should Germans give up their money because somebody else's treaty tells them to? It is the same thing. In the long run public opinion governs a nation. All we can do about that is to have a new war. Everyone recognizes that that solution is no solution at all. Even France with her heritage of fear sees that.

Americans would, therefore, cancel or at any rate greatly alleviate the reparations burden. There is also the excellent though selfish argument that payment of reparations will imperil or prevent the repayment to American citizens of some three and a half billions of dollars loaned by them to German States, municipalities and industries. Of the total indebtedness of Germany on private long-term obligations, 57 per cent. is said to be held in this country. It is natural, therefore, that our citizens should feel more concerned about this aspect of German indebtedness than about German reparations in which, directly at least, they have no interest.

As opposed to the German reparations there is the twelve billions of dollars in round figures owed to us by European countries, which accounts for roughly two thirds of our national debt. This obligation is contractual—funded, not assessed by any jury good or bad. Nor was it all directly a contribution to the prosecution of the war. Much of it represents post-war loans to European countries, but undoubtedly it helped to pay the piper for the costly tune to which we danced for more than four years. If we forego that debt a large part of the bill for the war is handed on to us. The European countries could pay ultimately even if a moratorium were essential now. Reparations or no reparations, why, we are asked, should they repudiate or we forego?

The United States Government (wrote Woodrow Wilson in 1920) fails to perceive the logic in a suggestion in effect either that the

The United States in the New Year

United States shall pay part of Germany's reparation obligation or that it shall make a gratuity to the Allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavoured heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of inter-governmental indebtedness. . . . The United States Government recognizes the importance, in the interests of peace and prosperity, of securing the restoration of financial and industrial stability throughout Europe. The war debts of the Allied Governments, the treaty obligations of Germany under the reparation clauses . . . have or may have an important bearing in making plans to accomplish such restoration.

Here, at least, is a declaration that has not lost its significance with time. In fact, it can stand as the classic statement of the case against any cancellation of the war debts. The new Congress ratified Mr. Hoover's moratorium agreement with the proviso that :—

It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced, and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

On the other hand, it is probably safe to say that the cause of out-and-out cancellation would have more advocates in the United States to-day than ever before. Twelve billion dollars is a tidy sum. But the shrinkage in listed stocks in 1931 came to very nearly that ; the shrinkage in stocks, bonds, and commodities far exceeded it. In the prosperous years that followed the war we reduced our national debt by some ten billions of dollars, suffered no great hardship, and progressively reduced federal taxation. If we could start the motors of the world by assuming the debt it would be worth while. To cut short the depression by a single month would be worth the sacrifice. And it is generally agreed that the war debt and reparation problem is now the millstone about the neck of international trade. It is what causes the maldistribution of the gold supply.

Reparations and War Debts

It cripples Europe's capacity to buy American goods. The fierce flame of hope that leapt up last June when the moratorium was first proposed illustrates the immense power of the psychological influences which might be unleashed by any relaxation of international obligations. Moreover, advocates of cancellation point out that the debt settlements as negotiated are unfair on the basis of present economic conditions. For instance, England under the Baldwin agreement experiences a debt concession of only 19·7 per cent. as against a concession of 75·4 per cent. to Italy. And, of course, all payments are automatically increased in terms of commodities by the collapse of commodity prices. Annual payments on the war debt amount to less than one eighth of the present expenditures of the Federal Government and less than one seventeenth of the value of our foreign trade in a hypothetically "normal" year.

No doubt a powerful factor in the ultimate decision will be Congressional pride, which is always forcing the inquiry, unparliamentary but searching, "Why must we be 'suckers?' Why must Uncle Sam always pay?" And no less influential will be the consideration of international armament. For if money remitted from the debts owed to us goes to pay for armaments which will simply serve to perpetuate the impossible system that brought us to this chaos, then our only course must be to insist upon the utmost farthing—the last centesimo. Figures published in this country indicate that last year France, Czechoslovakia, Italy, Poland, Rumania and Jugoslavia each spent more than ten dollars on armaments for every dollar paid to the United States. The allies together are spending annually for armaments seven times as much as their present annual payments to the United States of less than two hundred and fifty million dollars. Statistics of this sort tend to dry the tears of sympathy which might otherwise flow for our unhappy debtors. But if money concessions on our part can influence political and budget

The United States in the New Year

concessions in Europe, looking to some better ordered and more stable condition in Europe, then there is an argument with a powerful popular appeal. Perhaps the wisest estimate of present American public opinion comes from a capable diagnostician of American and foreign sentiment, Mrs. Anne O'Hare McCormick. She has recently said that Main Street's mood

is one of trouble and dark uncertainty rather than of bitterness, but in its panic it is easily swayed by any argument. Its first instinct is to turn out anybody in office in favor of almost any outsider. It yearns above all for action, audacity, which explains the enormous popularity throughout the west of direct tactics like those of Governor Bill Murray of Oklahoma. At this moment, though there is a distinct hardening of heart toward Europe, a general stiffening of nationalistic sentiment, it would be easy to persuade America either to cancel all the war debts or to insist on the last farthing. We want nothing so much as to be told with enough assurance which way to turn.

The last three years have indeed illustrated the almost uncanny suggestibility of the American people. Somehow or other it seems certain we are going to get on with this debt and reparation problem in 1932. We must get on with it; and facing it is bound to mean progress in our troubles.

IV. THE BUDGET PROBLEM

ASIDE from legislation, good and bad, designed to alleviate the miseries of the depression and to start the nation on an upward course, and aside from the problems arising from our comparatively untried status as a creditor nation, the major question in Washington is a fiscal one. We closed the fiscal year ending June 30, 1931, with a deficit of \$902 million, which included \$440 million for statutory debt retirement, or a net increase in the debt of \$462 million, plus additional cash in the treasury of \$153 million, or a total debt increase of \$615 million. For the fiscal year ending June 30, 1932, the Treasury estimates a probable net

The Budget Problem

debt increase of \$1,711 million. The importance of the decisions thus forced upon Congress is hard to overestimate. After years of preaching on the sin of the unbalanced budget, the time has come to put our precepts into practice. It is obvious that the first necessity is for retrenchment in all fields of governmental activity. But it is equally obvious that no retrenchment now practicable can cure the situation. And so Congress must decide whether to borrow the amount of the anticipated deficit or to increase taxes or to combine the two in a workable, if not a popular, program.

Fortunately the Treasury Department and the Administration, though facing a popular election within the year, are addressing themselves to the situation courageously. Mr. Mellon said to the House Committee on Ways and Means :—

A fundamental thought which I wish to present to you is that current receipts and expenditures of the Government should be brought into balance for the next fiscal year beginning with the coming July, so as to put an end at that time to any further increase in the public debt. This is essential, not merely for maintaining unimpaired the credit of the Government, but also for reinvigorating the entire credit structure of the country. The Administration is determined, with your cooperation, to arrest this borrowing process on June 30 next.

Mr. Mellon has outlined to Congress a two-year emergency program whereby the Treasury hopes to raise \$920,000,000, or enough to balance the books in the fiscal year ending June 30, 1933, and \$390,000,000 additional during the current fiscal year. He recommends that the per cent. rates of 1½, 3 and 5 per cent. on incomes of \$10,000 or less should be raised to 2, 4 and 6 per cent. respectively, with surtax rates at 1 per cent. on incomes over \$10,000, running up to 40 per cent. on incomes (if any) of half a million. He further recommends increased rates on tobacco, a slight increase in corporation tax levies, taxes on automobiles, radios, cheques and drafts, telephones, telegraph and cable messages, and an increase in estate taxes.

The United States in the New Year

Business sentiment in the country is impressed with the moral and exemplary value of governmental economy and a balanced budget.

Could you have a more depressing psychological effect (asked under-Secretary Mills) than the promise of the United States Government, backed by the total resources of the people of the United States, depreciating 18 points in ninety days? Why? Because of the fear that instead of meeting our needs through legitimate, sound means, afforded by taxation, we propose to attempt to issue billions of dollars of securities to the public.

. . . The courageous thing to do and the right thing to do is for the Government of the United States to stop borrowing and balance its budget and live within its income; and nothing . . . will have a greater effect right now than just that action on our part, because you must not forget that while there have been very many economic forces that have tended to produce the present depreciation in prices and values, in the latter phases of this depression period the psychology of fear and the loss of confidence have played even a greater part than the economic factors.

The Administration is also resisting the temptation to increase revenues from the pockets of the "rich," and Mr. Mellon told the Ways and Means Committee that "many not now taxed (under the existing federal income tax law) are very definitely in a position to make some contribution to the support of government."

It should perhaps be noted that one reason for the drastic decline in public revenue is the predominant part played by the income tax in our fiscal system. This tax produced for the calendar year 1928 \$1,164,000,000 and for the calendar year 1930 \$474,000,000. It is thought that individual taxes on 1931 incomes will not exceed \$300,000,000. That taxes decline more rapidly than incomes is due partly to the graduated tax scales and partly to the provision of the tax law which makes capital net gains taxable as income and capital net losses deductible from income. As everyone who has any capital at all has suffered losses which he may realize if he likes without necessarily incurring actual loss, e.g., by selling one

The Budget Problem

depressed security and buying another, the payment of taxes has been reduced for many people to nothing but a voluntary contribution to the support of government, a manifestation of public spirit to which few citizens in any country are as yet educated.

Just what tax Bill will ultimately pass it is too early to say. Control of the national House of Representatives is with the Democrats, and Republican control of the Senate is largely theoretical, so that perfect harmony is scarcely to be expected. Europeans will remember the precedent of Woodrow Wilson and a Republican Congress. Nevertheless, the Democrats have shown a disposition to realize that cooperation in measures to rout the depression will gain them more voters next November than long harangues about the sins of the Administration and the petty manoeuvres of party obstruction. This is well for the country, and the distrust of Congress which was a byword no more than a year ago has largely subsided and been replaced by a belief that Congress can and will "do something" to better conditions. That it can do immense harm by cheap and easy remedies no one denies. But the virtue of a balanced budget and sound legislation for the banks and railroads is no less obvious.

Meantime those who bear the brunt and burden of the depression are unbelievably calm and patient. There has been a notable lack of tumult and civil disorder, a notable absence of men crying out against capitalism or democracy or our established institutions. Rather we find a faith that this is an hour of national crisis to be met and overcome by work and fortitude and voluntary relief to the unemployed. On the vindication of that faith by the future depends not merely the economic, but the political, future of America.

United States of America.

January 26, 1932.

INDIA: THE STRUGGLE WITH CONGRESS

I. INDIA AND THE ROUND TABLE CONFERENCE

SINCE the publication of our last article from India* events have moved with startling and dramatic rapidity. The cloud of depression and uncertainty then hanging over the country has, to some extent, lifted in spite of the recent incidents and ordinances. In the constitutional sphere the signs are more favourable than seemed possible during the summer and autumn, and in the political field there is a straight fight on a clear issue between Congress and the Government. The gloves are off. Whether or not any substantial progress was made by the Round Table Conference in elaborating the mechanism of the future constitution, and in spite of its failure to secure an agreed settlement of the communal problem, every impartial observer recognises that a marked advance has been made. The air has cleared. The Prime Minister's statement, and the emphatic approval by both Houses of Parliament of the policy embodied in the White Paper, have left no room for doubt in the minds of reasonable people as to the determination and intentions of Great Britain. The consequent diminution of the feeling of pessimism and distrust which animated many Indian statesmen, even of the more moderate school, is a factor of great psychological importance. And, whatever the nationalist press may write about the inadequacy of the Prime Minister's statement, the opinion is gaining ground that some really solid

* See THE ROUND TABLE, No. 85, December 1931, p. 100.

India and the Round Table Conference

and lasting work has been done. The Round Table delegates have now returned to India, and their pronouncements (except, of course, Mr. Gandhi's) on the subject are marked, on the whole, by a robust, if cautious, optimism and a firm belief in the value of continued co-operation. There are signs that confidence in the good faith of Great Britain is returning, and prophecy is indulged in as to the date of the establishment of the new constitution. The fact that the Round Table Conference will remain in being in India in the form of a "consultative" committee, under the chairmanship of the Governor-General, as deputy to the Prime Minister, and the appointment of the Franchise, Federal Finance and Indian States Inquiry Committees, which are now engaged on their labours, provides a clear and convincing proof of the Government's determination not to mark time, but to carry out their programme with the greatest speed compatible with care, undeterred by the many forces of disruption still actively at work, and of their willingness to seek by the method of conference and discussion a solution of the problems still outstanding. The ready acceptance by Indian public men of invitations to serve on these committees is an encouraging sign of the belief of non-Congress opinion in the greater value of co-operation as compared with the barren campaign of civil disobedience. If any further proof of Great Britain's purpose were needed, the speech of the Viceroy to the Assembly on January 25 gives it in full.

The tactics of Congress have not been unexpected, as the extremists for some time have had the upper hand. They were scheming during Mr. Gandhi's absence in London to force the issue and to leave him on his return no alternative but to declare for a resumption of civil disobedience. Mr. Gandhi's own position made this easier. His behaviour at the Round Table Conference revealed his lack of constructive statesmanship, and his indifference to practical issues. It showed that he could not speak for

India : The Struggle with Congress

India as a whole, that his claim to dictate terms on behalf of the Congress to other sections of the body politic was contested and resented by Mahomedans, by the depressed classes and by many Hindus themselves, and, finally, his failure to "cut any ice" at the Conference greatly lowered his prestige. If he had any inclination to make a spectacular gesture which would bring him back into the limelight, it would certainly have been strengthened by this failure in London. Many observers felt convinced that he would resume the civil disobedience movement after a half-hearted attempt at artificial negotiation, and it is easy to understand how circumstances drove him to forsake the path of co-operation. By precipitating action in the North West Frontier Province and the United Provinces, his lieutenants had left him little choice, even if his personal inclination did not point in the same direction. These lieutenants, whether Abdul Ghaffar Khan on the Frontier or Pandit Jawahar Lal Nehru in the United Provinces, had made no secret of the fact that they hoped to secure through the civil disobedience movement the complete independence of their country. They anticipated that Mr. Gandhi would keep the Government of India in play, by negotiations with the Viceroy, while they completed their preparations for the "war." At the convenient moment Mr. Gandhi would announce the cessation of the negotiations, and the carefully matured plans for civil disobedience, which were intended to take full advantage of the serious financial difficulties of the country, would then be put into operation. The Congress leaders were out in their calculations. The Government of India took immediate action. Their firm and vigorous measures caused surprise and consternation in the Congress camp and robbed the leaders of the interval for further preparation which they had expected. The Congress working committees are now unlawful bodies, many of the leaders are in jail. The issues are clear-cut. On the one hand, in the constitutional sphere a march along the road

The Red Shirt Movement

to self-government, on the principles adopted by His Majesty's Government, is now in progress—over very difficult and tricky country in some parts of the journey—and, on the other, in the political sphere there is the Government's determination to crush what is in effect an unarmed rebellion for the purpose of winning independence.

II. THE RED SHIRT MOVEMENT

WE must now describe the main events which led to this dramatic *dénouement* and set forth, as far as possible, the reactions in India as a whole to the policy of the Government in determining to fight the Congress and simultaneously to proceed with reforms. The months of November and December were a very critical period in the history of India. Government was beset with difficulties. The Congress leaders, in spite of the Delhi Pact, were making preparations for the resumption of the "struggle"—establishing "war" councils, encouraging everywhere the growth of "war mentality" and implanting in the minds of impressionable schoolboys "the glory of the fight for freedom." The falling prices of food grains offered a favourable opportunity for stirring up the peasantry—especially in Pandit Jawahar Lal's own province, the United Provinces. The Red Shirt movement on the Frontier was clearly subversive and opposed to the Irwin-Gandhi settlement, but the Congress deliberately encouraged Abdul Ghaffar Khan, its irreconcilable leader, in his pretensions. The position was thus one of extreme delicacy in which a false move on the part of the Government might have been disastrous. Mahomedan feeling in the Frontier Province and in the Punjab was uncertain, shaken as it was by events in Kashmir. On the Frontier the Red Shirt organisation was making rapid headway, and was openly inspired by revolutionary objects. It was realised that action could not long be delayed against

India : The Struggle with Congress

Abdul Ghaffar Khan, the leader, who claimed to be the *de facto* head of the province. Premature action, however, might have precipitated a conflagration among the Mahomedans of the province and in the tribal areas. The Mahomedans of the Punjab and the United Provinces might easily have extended more than a silent sympathy. Serious trouble in northern India would have presented a golden opportunity to the Congress leaders elsewhere ; under their instigation a peasant revolt in the United Provinces, which might have spread to other provinces, would have been on the cards, while in Bengal the revolutionary party, regarding themselves as the " storm troops " of the " nationalist army," would have been inspired to more dastardly deeds of terrorism. The moderate politicians, especially the Hindus, disliked the Bengal Ordinances and gave little support to Government on the plea that the price of their co-operation was the abandonment of measures of " repression." Mahomedans generally were apprehensive of constitutional developments which might run counter to their hopes and claims, and would not wholeheartedly co-operate with Government until those doubts were set at rest. In a situation of such bewildering complexity, Lord Willingdon and his Government acted with firmness and courage. They have now regained the initiative and are proceeding undismayed with the great constitutional task before them.

The events in the North West Frontier Province, the United Provinces and Bengal play such a prominent part in the later developments that a fuller account of them is necessary for a proper understanding of the sequence of events.

To take the North West Frontier Province first, in many ways it has been, as it were, the keystone of the political arch. Congress intransigence went further here than elsewhere and open defiance of authority had reached a highly dangerous pitch. It is still, to a large extent, the touchstone of Mahomedan feeling. In his conciliatory administration,

The Red Shirt Movement

which it was hoped would win general support in the province for the coming constitutional reforms, the Chief Commissioner was persistently thwarted by Adbul Ghaffar Khan and his adherents, who for the greater part of last year had been making intensive preparations for the renewal of their struggle for complete independence. For ten months, in spite of grave provocation, the Government of the province restricted its action against this movement to measures under the ordinary law. It was hoped that the eventual establishment of a reformed constitution would consolidate public opinion and bring about peaceful conditions. This hope was not realised. The publication of the report of the Subjects Committee in June last made no impression, and indeed a spirit of contempt for law and order was spreading, leading to open defiance of authority and violence to government officers. It was hoped that Mr. Gandhi's participation in the Round Table Conference would mend matters. But again hopes were disappointed. Abdul Ghaffar Khan had been made leader of the Congress movement on the Frontier, and after a tour throughout the province he returned to Peshawar, as a virtual dictator, to reorganise the Youth League as an integral part of the All-India Congress organisation, under the name of the Frontier Provincial Jirga. He urged his audiences to disobey orders passed by Government, delivering inflammatory anti-British speeches. He declared in November that the aim and object of his organisation was "to liberate the country from the foreign yoke. The country was theirs, while the English were enjoying themselves."

At a later meeting, after the Prime Minister's announcement, he declared, "We have two purposes: firstly, to free our country; and secondly, to feed the hungry and clothe the naked. Do not rest until freedom is won. It does not matter if you are blown up with guns, bombs, etc. If you are brave, come out into the battlefield and fight the English, who are the cause of all our

India : The Struggle with Congress

troubles. Congress is a society against the English. The English are the common enemies of the Congress and of the Pathans." During the month of December his following of Red Shirts held large camps in the Peshawar district, at which parades and manœuvres in military formation were carried out. The campaign for the non-payment of revenue and water-rates and for the refusal to take government canal water was steadily pursued. In one part of the Peshawar district a Red Shirt tahsil (revenue office) was opened and collections were made from the zemindars (landowners). Attempts were made to extend the Congress-Red Shirt movement across the administrative border into the Malakand Agency. Meetings were held in deliberate defiance of the Political Agent's order, and, in spite of a strong protest by the local maliks themselves, inflammatory pamphlets were distributed in the Swat territory to stir up disaffection against the Wali of Swat. There was reason to suppose that the Mohmand tribal territory was also penetrated by Congress emissaries. In spite of every effort at conciliation by the Government of the province, Abdul Ghaffar Khan remained obdurate and used the Prime Minister's declaration of December 1 as an occasion for even more open defiance. Resolutions were passed on December 20 at a meeting of the Provincial Congress Committee repudiating that declaration and resolving that nothing short of complete independence would be acceptable. Congress was called upon to abandon the Irwin-Gandhi truce and to proclaim the renewal of civil disobedience. The first week of January was to see the inauguration of a fresh phase of Red Shirt activity, which would be signalled by the ceremony of unfurling the Congress flag at Utmanzai at a New Year's Day parade, and preparations were in train for an impressive demonstration of Red Shirt strength and preparedness.

In the face of these resolutions Government could no longer stay its hand or follow a policy of conciliation. The Chief Commissioner held a Durbar on December 22,

The No-Rent Campaign

announcing the measures taken by the Government of India and the local government to introduce the new constitution at the earliest possible moment, an announcement which made a deep impression upon the more reasonable people of the province. Immediately after the Durbar, Abdul Ghaffar Khan was arrested and an ordinance promulgated to give the authorities the requisite special powers for dealing with the emergency that had now arisen. Numerous clashes occurred with bands of Red Shirts, but the policy of firmness proved successful, and soon a decided improvement took place. Red Shirts began to apologise and to burn or dye their uniforms. Revenue is once more coming in, and the intelligentsia are concentrating on the early establishment of a reformed constitution on the lines of a governor's province. This may become an accomplished fact by the spring of this year. Details are now being worked out with the utmost despatch by the non-official committees, the Chief Commissioner and the Government of India, and canvassing for election is already in progress.

III. THE NO-RENT CAMPAIGN

IN the United Provinces the Congress leaders planned "to consolidate the position of the Congress, to strengthen their organisation and to prepare the people for any contingency that might arise," and especially to concentrate on the rural areas. The Delhi Agreement was concluded on March 5, 1931; nevertheless, within a very short time Congress gave clear proof that they did not intend to abandon the no-rent campaign which they had vigorously preached in parts of the province during the civil disobedience movement of 1930. The general fall in prices had made the payment of rents a matter of serious and increasing difficulty for tenants, and the situation was, therefore, open to skilful exploitation by the Congress.

India : The Struggle with Congress

It should be explained that in the United Provinces about 95 per cent. of the rents are on a cash basis. Rentals are fixed by agreement between the landlord and the tenant, and are not determined by government agency. In the past the efforts of the State have lain in the direction of securing and safeguarding equitable terms of tenure for cultivators, rather than of attempting to settle the actual rents. The State may remit revenue, and the law provides that when, owing to any calamity, the State remits revenue, the revenue payer, *i.e.*, the landlord, should make a proportionate reduction in the rents paid by his tenants. The Government accordingly decided to announce, after careful enquiry, a remission of land-revenue which would result in the reduction of rentals to about the level of 1915, involving a reduction of 207 lakhs* of rupees in the total of rents in the province. The Congress agents, however, went on steadily inflaming the tenants, and a state of affairs was brought about which not only threatened general disorder, but contained a serious menace to the maintenance of the Delhi settlement. The ordinary processes issued by the revenue courts were executed with the greatest difficulty, and attempts to do so were frequently accompanied by rioting. Crops attached under judicial decrees were forcibly removed ; there were many cases of intimidation by violence or social boycott. In some cases landowners themselves or their agents were murdered, and police were attacked when investigating crime. Abundant evidence was forthcoming of the growing spirit of lawlessness in many districts, largely because Congress volunteers were working in the villages, spreading contempt for authority and sowing dissension between landlords and tenants. Mr. Gandhi visited the Governor of the province and issued a manifesto, some of which was unexceptionable, but which contained the assumption that Congress was an authority competent to decide what rents should or should not be paid, to adjudicate disputes between landlords and tenants,

* A lakh is £7,500.

The No-Rent Campaign

and to receive complaints against the former lodged by the latter.

This manifesto naturally complicated the situation. Riots and lawlessness continued, and Pandit Jawahar Lal Nehru made it clear that his objective included the total expropriation of landlords, and held out to tenants the prospect that, with the victory of Congress, they would become full proprietors of the lands they cultivated. The Congress volunteers deliberately encouraged a form of class warfare against their landlords, accusing the latter of perpetrating acts of brutal savagery upon their tenants to force the payment of rents. The plight of the tenants during the year 1931, owing to the fall in prices and other economic causes, was serious. The Government, realising that further relief was required, appointed another committee and invited a Congress leader to serve on it, but he declined the invitation. This committee proposed remissions of revenue which involved a total reduction of rents by about 410 lakhs of rupees. On the flimsiest grounds the Congress considered them wholly inadequate, and decided, after some discussion, that a no-rent campaign should be started in the Allahabad district. Later on, after some brief negotiations, during which the Congress put forward impossible claims, which no Government could accept, the Provincial Congress Committee, at a meeting held at Lucknow on December 5, passed a resolution definitely authorising the local committees of Cawnpore, Unao, Rae Bareli and Etawah to commence a no-rent campaign. The possible extension of such a campaign to other districts rendered further action on the lines already pursued out of the question. The dangers of such a campaign had been made abundantly clear, with its possibility of leading to murder and class warfare, and again Government could stay its hand no longer. An ordinance was promulgated empowering the local government and their officers to deal adequately with the no-rent campaign. Pandit Jawahar Lal Nehru and other leaders were convicted

India : The Struggle with Congress

for defiance of orders served upon them and sent to prison. The situation immediately improved and rents began to come in. The provisions of the ordinance have in fact been very sparingly used owing to a restoration of confidence in Government's power to exercise authority, and a very satisfactory comment was the substantial endorsement by the United Provinces Legislative Council of the Government's policy and of the need for the ordinance. A slight increase in prices materially helped.

IV. TERRORISM IN BENGAL

IN Bengal the difficulty was not attributable to the measures adopted by Congress: the Congress party there was torn by internal dissensions, and in spite of the Barhampur resolutions and a determination, if necessary, to act independently of the National Congress (though the province was admittedly unprepared for civil disobedience) was not making much headway. It was the recrudescence of the terrorist movement that gave cause for much serious anxiety. A recapitulation of the many outrages committed, culminating in the murder of Mr. Stevens by two young girls, is unnecessary here, as these events will be fresh in the minds of readers of *THE ROUND TABLE*. The consequences were disturbing. In parts of the province, *e.g.*, Chittagong and Dacca, the authority of Government was seriously impaired. The revolutionary party was rapidly growing in strength and numbers: it was well organised and made a strong appeal to the sentimental young Bengali of the middle classes. Many of the known revolutionaries had been detained in detention camps under the Bengal Criminal Law Amendment Act, but this was of little help in itself—discipline was lax and the camps served as a sort of headquarters. Communication with confederates was easy. The movement thrived, and in some districts the countryside was desperately afraid. The inadequacy of the counter-

Terrorism in Bengal

measures taken by the local government was the subject of bitter attack by the European Association and by a new organisation known as the Royalists. Sterner action was demanded, and among non-official Europeans there was constant talk of reprisals. The prestige of the Government was low. Strong measures could not be delayed. The European community rightly demanded the restoration of conditions in which they could carry on their daily business without the fear of assassination. The Chittagong bravoes had to be rounded up and respect for authority restored. The Bengal Ordinances were promulgated at last and many suspects were arrested. Some improvement has taken place and the presence of troops in Chittagong has had a good moral effect. But terrorism still goes on, and very careful measures of protection have to be taken. Every spectacular success which the revolutionary party achieves encourages them and inspires confidence in the ingenuity of their plans to murder Englishmen or any persons who give information or evidence against them. They are completely irreconcilable and will not abandon the cult of the bomb and the revolver with the advent of self-government.

It is indeed one of the most unsatisfactory features of the Bengal situation that fear of the terrorist movement is so widespread. Only on this supposition can one explain the attitude of Congress and the nationalist politicians generally. They fear that when provincial autonomy is attained the revolutionary party will demand a large share of the plums, and so the leaders, while rebuking methods of violence, laud the self-sacrificing spirit of the murderers and cause them to be acclaimed as saints. They compare the murders of innocent people with the issue of an ordinance by Government as alike instances of terrorism, while so sensitive and so squeamish are the Liberal politicians as a class that they profess a detestation of government by ordinance, and pretend that the terrorist movement would subside of itself with the grant of full responsible govern-

India : The Struggle with Congress

ment in the provinces and at the centre. Unless the good sense of the people of India contrives to extirpate terrorism from Bengal, neither a federation of provinces and States, nor dominion status, nor complete independence will bring peace to that unhappy province.

Thus in each of these provinces certain common features were present—a growing spirit of lawlessness and defiance of authority, leading to disturbance, murders, insecurity, and attempts to set up parallel institutions and to exercise an authority equal to that of the established Government. Any Government which did not take vigorous action in face of such a situation would have failed in its first duty, which is to govern. The question was not one of stifling a legitimate political movement, but of preventing disorder and chaos.

V. MR. GANDHI'S RETURN

SUCH was the general position of affairs at the end of December when Mr. Gandhi was due to arrive. The stage was carefully set, and perhaps the leaders felt little doubt as to the turn of events. The acting president, Mr. Vallabhai Patel, had declared that the coming struggle would be India's last struggle, but that he would leave the final decision to his leader, Mr. Gandhi. Mr. Gandhi himself during the voyage said that he would not take a "hasty step," but his first utterances ashore indicated more than a willingness to do so. At a public meeting he declared that he had hoped that it might be possible for him to find a way to co-operate with Government, but the signs he had noticed had considerably weakened these hopes. "If the fight becomes inevitable, I invite you to be ready, but I will not give up all attempts to save the nation from a fiery ordeal and would not be afraid to undergo any amount of suffering or flinch from sacrificing a million lives." The Congress Working Committee urged upon him that

Mr. Gandhi's Return

the present policy of the Government in Bengal, the Frontier Province and the United Provinces meant a definite rupture, and that it was no good trying to patch things up. Mr. Gandhi preferred to postpone his decision until he had ascertained the views of the Government of India. He accordingly telegraphed to the Viceroy, in effect asking for an explanation of the ordinances and whether friendly relations were closed. The Viceroy replied that in Bengal the Government must take all measures necessary to prevent dastardly assassination of their officers and private citizens, that it was impossible to reconcile the activities of the Congress in the United Provinces and the Frontier Province with the spirit of frank co-operation. He was prepared to see Mr. Gandhi but not to discuss with him the measures which his Government had found it necessary to adopt in the three provinces with the full approval of His Majesty's Government.

The Congress Working Committee, on Mr. Gandhi's advice, proceeded to pass a lengthy resolution in which they questioned the accuracy of the Government's statement of events, described the Prime Minister's declaration as "wholly unsatisfactory and inadequate in terms of the Congress demand," and declared that nothing short of complete independence would satisfy them. They tendered their co-operation "provided the Viceroy reconsiders his telegram and adequate relief is granted in respect of the ordinances and its acts, free scope is left to the Congress in any further negotiations and consultations to prosecute the Congress claim for complete independence, and the administration of the country is carried on in consultation with popular representatives, pending the attainment of such independence," and, finally, in the event of no satisfactory reply being received, they called upon the country to resume civil non-violent disobedience. This was to include the boycott of all foreign cloth, the boycott of British goods and British concerns, the vigorous picketing of liquor and foreign cloth shops by women, the

India : The Struggle with Congress

unlicensed manufacture and collection of salt, the organisation of processions and demonstrations, civil breach of "non-moral" laws and of laws and orders injurious to the people, and civil disobedience of all important orders issued under the ordinances. They appealed for national economy, the non-purchase of goods on which customs duties are levied, and the boycott of government utility services and concerns such as posts and telegraphs, courts and railways; they assured the landlords that they had no design on interests legitimately acquired and called upon the landed and monied classes to help the Congress. Mr. Gandhi informed the Viceroy that the constitutional issue dwindled into insignificance in view of the ordinances and denied that events on the Frontier, in the United Provinces and in Bengal were open to the interpretation placed upon them by the Government of India. He stated, however, that the resolutions of the Working Committee would be suspended if the Viceroy would still consent to see him and discuss the present situation arising from the ordinances.

After the threatening resolutions of the Working Committee and the tone of the telegram sent by Mr. Gandhi, the Viceroy felt that he could give only one reply, namely, to express the Government's regret at the resolutions that had been passed, involving the general revival of civil disobedience unless certain conditions were satisfied. The Viceroy added that he considered the attitude of the Congress deplorable in view of the declared intention of His Majesty's Government. "No Government consistent with the discharge of their responsibility can," he said, "be subject to conditions sought to be imposed under the menace of unlawful action by any single organisation, nor can the Government of India accept the position implied in your telegram that their policy should be dependent on the judgment of yourself as to the necessity of measures which the Government have taken after most careful and thorough consideration of facts and after all other possible remedies have

Mr. Gandhi's Return

been exhausted." It was hardly possible for the Viceroy to invite Mr. Gandhi, with the hope of any advantage, to an interview held under the threat of the resumption of civil disobedience. The die was thus cast. Manifestos were issued. Mr. Gandhi in his last public utterance before his arrest urged the country to respond to the challenge of Government and appealed to Americans to watch the course of the struggle and to use, "for the sake of oppressed humanity, the influence of the greatest nation." Mr. Vithalbhai Patel, the ex-president of the Assembly, Mr. Subhas Chandra Bose and Mr. Jamnadas Mehta issued a joint statement condemning the Working Committee's conditional offer of co-operation and urging the establishment of new independence organisations in the country.

It is clear that Government's forbearance in face of grave provocation in the three provinces, the Prime Minister's statement and its acceptance by Parliament, and the assurance of the immediate establishment of a new constitution for the Frontier Province were wholly ignored by Mr. Gandhi and his lieutenants. In effect, they demanded the Viceroy's capitulation to conditions which would make Mr. Gandhi the arbiter of measures necessary for the maintenance of law and order, and which would leave the Congress free to pursue their subversive activities as they saw fit. If the Viceroy had agreed, he could expect nothing from the Congress except the freest exercise of its claim to independence; if he did not agree, the Congress would immediately embark upon its programme of civil disobedience. To the Congress leaders civil disobedience was not only the natural right of the people—especially when they had no real voice in their government—but an effective substitute for violence. It was obvious that the Government could no longer sit still and watch the progress of a movement that was deliberately designed to paralyse the administration and to inflict the maximum of harm on government, regardless of the loss

India : The Struggle with Congress

it might entail on private individuals. It therefore acted with vigour and promptitude. A statement of policy was issued by it explaining that the movement was opposed to all constitutional principles and that in fighting it the Government of India was fighting the battle not only of the present Government but of the Governments of the future, and that it would be its duty to hand over to the new order a working administration and, to this end, to resist with all its might the forces which would create a state of anarchy and chaos.

VI. CIVIL DISOBEDIENCE

MR. GANDHI and Sardar Vallabhai Patel were at once arrested under Regulation III of 1818. On January 4 four ordinances were promulgated to deal effectively and promptly with the Congress plan of campaign—(1) the Emergency Powers Ordinance, (2) the Unlawful Instigation Ordinance, (3) the Unlawful Association Ordinance, and (4) the Prevention of Molestation and Boycotting Ordinance. These ordinances, the titles of which sufficiently indicate their scope, give very extensive powers to the authorities charged with the maintenance of law and order for the protection of law-abiding citizens. The life of an ordinance is six months only, though it can be renewed, and the policy of the Government has always been to utilise its provisions only for so long as the situation demands. In the provinces concerted action has been taken. Numerous Congress leaders have been arrested; many have been served with notices prohibiting them from addressing meetings, taking part in demonstrations, encouraging picketing or actively aiding or abetting the civil disobedience movement. Steps have been taken to close Congress offices, to sequester their funds and to check, as far as possible, new contributions to them. Processions and demonstrations have been on a smaller scale than might have been expected, but in

Civil Disobedience

every large city such demonstrations have been held in defiance of orders. They have been controlled without difficulty and, so far, have not assumed any dangerous importance. The arrest of leaders has passed almost unnoticed. Many persons have been and are being convicted daily and sentenced to varying terms of imprisonment. The presidents of working committees, "dictators" and members of war councils follow one another into office and jail in bewilderingly rapid succession. The authorities on their part have not been slow to mobilise opinion on their side. At all important centres meetings have been convened to pledge to merchants and business men the support of Government against picketing and boycott. It seemed not improbable that a determined effort would be made to picket petrol stations and to prevent the export of wheat, cotton and gold, but so far no great success has been achieved in this direction, and indeed the exports of gold are increasing. The general upheaval and the partial paralysis of government, which the Congress leaders confidently expected would follow their arrest, have not occurred, and victory in the first round has gone easily and unmistakably to the forces of Government. The end, however, is not yet in sight, and despite the absence of any disquieting incidents up to date, a constant strain is placed upon the authorities, who cannot for a moment relax their vigilance, and upon the public generally by the partial dislocation of normal business.

How long the struggle will last it is profitless to try to foretell. The Congress is a powerful organisation and occupies a unique position in Hindu sentiment. At this point, though generalisations are dangerous and need constant revision, it is possible to take some stock of the situation. The most striking feature is the lack of violent reaction against Government's policy. Is this merely a lull before a storm or is it the natural response in the East to an attitude of firmness? The moment was perhaps favourable to the Government. Congress funds were low

India : The Struggle with Congress

and the country was not ready for civil disobedience. The experience of 1930 had been costly to the people and they disliked and resented the perpetual *hartals* and interference with their daily affairs. Some of the main features of the movement, such as the no-rent campaign and intensive boycott, though skilfully devised to strike a shrewd blow at the financial position of Government, were bound to react against Congress by the hardship inflicted upon many individual supporters. The depressed classes, again, have shown themselves definitely opposed to Congress pretensions and organised a monster demonstration against Mr. Gandhi on the day of his arrival in Bombay. The Mahomedans are generally hostile to Congress and to Mr. Gandhi, and so far are keeping themselves aloof from civil disobedience, though they are still uncertain and disunited, and it is far from clear what line they will finally adopt with regard to government policy on the Frontier. At the same time, in the constitutional sphere work is progressing. There has been no difficulty in completing the membership of the Consultative Committee and the various committees appointed to deal with the franchise and federal finance. Much will depend on the labours of these committees, and if a friendly atmosphere can be retained, there is good reason for hope. But here, too, it will not be all plain sailing : the problem of federal finance is so complex in itself and so inextricably bound up with the interests of individual States that many reflective minds regard it as almost insoluble. The Princes have, in many cases, issued manifestos expressing their determination to stand by the Government in their fight against the civil disobedience movement. The loyalist section of the people has been gratified by the proofs of firmness, and the wobblers are turning to Government as the winning side.

The financial outlook is brighter : India's credit stands high and the price of Indian securities is rising. The policy of linking the rupee with sterling has been beneficial, for India's floating debt has been reduced to 61 crores from

Civil Disobedience

84 crores, and the whole of the £15 million sterling loan has been repaid without borrowing. The Bank rate has been reduced, and there has been improvement in the rupee prices of certain commodities, especially cotton.

Thus from many points of view the signs are favourable, and one might logically expect the co-operators to organise an intensive mobilisation of all reasonable opinion to push on reforms with all speed, to make every attempt to capture the new electorate and to consolidate their position against the left wing of Congress, which should become a small but irreconcilable minority, against the time when they themselves may assume responsibility for the government of the country. Unfortunately, there is little indication of this, and it seems likely that attempts may be made to bring pressure to bear upon Government to moderate their present policy against Congress. It is impossible to disguise the fact that the refusal of an interview by the Viceroy to Mr. Gandhi rankles in many quarters on sentimental and quite illogical grounds. Sir Tej Bahadur Sapru has put this point of view in moderate language when he pleads for an early resumption of discussion, and contends that no final solution can be found by the methods now adopted. Dr. Rabindra Nath Tagore, though not a politician, has expressed himself with greater force. The position may crystallise with the session of the Assembly which is about to begin. What will be its attitude? Notices of motions for the adjournment of the House in criticism of Government's policy have been received and attempts are being made to persuade the Mahomedans, especially those who are dissatisfied on personal or political grounds, to join in an attack upon the Government.* Whether or not such motions are carried, a certain sympathy with the Congress leaders, the general aversion of many politicians from

*A motion condemning the Government's policy in arresting Mr. Gandhi and Mr. Sen Gupta, and other actions under the ordinances, was defeated in the Legislative Assembly on February 2 by 62 votes to 44. Moslem representatives were divided in the voting.

India : The Struggle with Congress

strong measures in times of emergency, and an inability to refrain from making overtures in public to extremists outside the House, may bring about some deterioration in the present situation, and the spring, as is not uncommon in India, may see some intensification of anti-government activity. It is, therefore, too much to hope for an early cessation of the struggle or an early defeat of the extremist element. We began this article on a note of qualified optimism. But the many elements opposed to extremism have it in their power, if they would but seize their opportunity, to turn the present situation to their advantage and to create an atmosphere of more positive confidence.

India.

January 25, 1932.

GREAT BRITAIN: TARIFF REFORM ✓

THE last issue of THE ROUND TABLE left the chronicle of political events at the point where the National Government were about to meet a House of Commons nine-tenths of which were its supporters. The country was clearly on the threshold of a great effort. Would the leaders of the different parties be able to devise in collaboration an effective policy to bring it safely through, or would the clash of views end in deadlock and disintegration? Would a House of Commons containing over 200 inexperienced members and a large contingent of unplaced ex-Ministers keep the ideal of national unity before it? Four months' experience is all too short to give a definite answer, but it is at least possible to say that the prophets of sterility and the prophets of an early dissolution of the National majority have hitherto been confounded. The characteristic feature of the new House of Commons is not the vocal unrest of certain elements, but the hard core of quiet determination that the experiment of a National Government shall not lightly be abandoned.

I. GROUPS AND PARTIES

THERE are, of course, ragged fringes, and the House of Commons is by no means devoid of an Opposition. But the doings of the official Opposition (the Labour party) are to-day more important outside than inside the House. We left the unseated Ministers last December taking stock

Great Britain : Tariff Reform

of their position, and considering the future line of action of their party. That process has continued. Some, Mr. Shinwell for instance, like Mr. Cole, would not willingly see the Labour party lose their class character, but Mr. Lees-Smith, the ex-Minister of Education, has repeated his conviction that they "are not likely to be returned to power on a purely working-class vote," and he again emphasised the need of "a practical appeal to disinterested men of good will in all classes. . . . Our work hitherto," he said, "has been the direct redistribution of wealth by what are called 'social services,' and the increasing taxation of wealth. We have reached the limits to which Socialism can be carried in a capitalist society, and we have now to apply ourselves to problems of fundamental reconstruction and to work out the details of our Socialist doctrine's adaptation to the changed conditions produced by this century's industrial revolution." The same note of uncompromising Socialism is found in other speeches, notably in those of Sir Stafford Cripps, who is generally regarded as one of the "coming men" of the Labour party, and who is among the very few of its leaders who have retained their seats in the House. "Gradualism," he said in a recent address, "is gone from our programme for ever." As regards practical measures, Labour speakers obviously consider the control of the banking system the most important of their objectives, and the fiscal question has taken a second place. Their difficulties have, of course, been exceptional in the matter of leadership. Soon after they lost Mr. MacDonald, Mr. Henderson, his successor, fell ill, and after his recovery was obliged to occupy himself with the preparations for the Disarmament Conference, of which he is President. Then came the death of Mr. William Graham, the former President of the Board of Trade, a heavy loss for the party. But in spite of these handicaps they have not been letting the grass grow under their feet. A campaign is being carried on throughout the country with the object of enlisting a

Groups and Parties

million fresh subscribers to the party. Rumours of overtures with the object of effecting a reconciliation between the Labour party and Mr. MacDonald—it was suggested that he might return to his former position in the event of a breakdown of the National Government—have been met by the emphatic repudiation of Labour spokesmen.

Inside the House the official Opposition is, of course, a mere handful, just the 50 odd Labour candidates who survived the election, and it counts for little. Mr. Maxton and his small group, still deprived of the official whip of the Labour party, have established themselves as a separate parliamentary entity.

One of the questions of the moment is, of course, what is Mr. Lloyd George going to do? Hitherto he has been represented in the House by the family party of three, but he is now back from Ceylon with, it is said, all his old health and energy. In the course of an interview on January 8, the day of his return, he gave the world to understand that if the Government announced its policy when Parliament reassembled at the beginning of February, he would be in his place in the House. He has not, however, yet occupied it, and on February 3 the head of his staff sent a chilly refusal to the appeal of a leading Yorkshire Liberal for a fighting lead on the tariff issue. Mr. Lloyd George had, the reply stated, already given "a very clear and uncompromising lead" at the time of the general election. His warning, however, that "the steps taken to ensure a majority of Conservatives in the House of Commons must inevitably result in the overthrow of the free trade system," was neglected by every leading Liberal and almost every Liberal Association, and, if the election figures were a reliable guide, by the overwhelming body of Liberals throughout the country. Now that it was seen that Mr. Lloyd George was right, it was all very well to call for a lead, but it was too late. There was no evidence, except in a few personal instances, that the decision of the Liberal Ministers to retain their portfolios in a tariff administration had met

Great Britain : Tariff Reform

with anything but approval from organised Liberalism. When a substantial part of organised Liberalism throughout the country showed that it was ready to listen to Mr. Lloyd George, he would be "only too ready to play his part." It is really to the Conservative party that the student in search of a parliamentary Opposition during recent months must turn. Here, among the high protectionists, he will find some of the elements that started, though they did not consummate, the break-up of the Coalition in 1922. Their natural leader is Mr. Amery. So long as he and his friends were pressing generally for tariffs of some sort, they had most of the House of Commons behind them. But now that the Government has produced a tariff policy, the virtue will perhaps be taken out of this movement, though the policy of the Government is not on all fours with the policy this section has favoured. The bulk of members, as Mr. Geoffrey Lloyd said in his maiden speech, clearly want tariffs of some kind, but they will take their pace from the Government. Incidentally, before we leave this subject attention should be drawn to an interesting feature of the new House. A large number of the Conservative supporters of the National Government are new to Parliament, and two things are noticeable about them. They show unusual assiduity in attending debates and an unusual independence in their attitude towards the party machine.

II. THE NEW FISCAL SCHEME

WHEN the Government took office last October it found a situation in which everything was in a state of flux. With the pound no longer anchored, and disturbing factors on every side, time alone could show what was going to happen. The Government was like a ship sailing through uncharted seas, with rocks everywhere ahead and visibility low. It had to feel its way. The first step it took was a temporary one devised to restore

The New Fiscal Scheme

the balance of trade, which had been recently moving against us, by checking imports. It imposed for the period of a year duties ranging from 50 to 100 per cent. on a number of dispensable articles and high specific duties on out-of-season market garden produce ; the range of imports ultimately covered by these duties probably amounted in value last year to between £30,000,000 and £40,000,000.

The favourable reception that these proposals met with in the House was largely due to Mr. Runciman, who defended with equal skill both inclusions in, and exclusions from, his list of dutiable articles. The fact, too, that these tariffs were proposed by a Liberal Minister supported by a unanimous Cabinet was a reassuring sign, and Mr. Runciman easily succeeded in defeating a sustained effort by the protectionist group to impose forthwith duties upon imports of iron and steel. So the first chapter of our new fiscal history closed with no further change. These particular duties were accepted by the whole Cabinet. In the meantime executive action in the field of immigration was more than keeping pace with legislative action in the field of imports. Under the Aliens Acts of 1914 and 1919, in consultation with the Ministry of Labour, the Home Office issued a number of orders banning the admission of certain foreign artistes—among others—into this country or terminating their permission to stay here, and generally tightened up the conditions under which foreigners are allowed to enter. This manifestation of economic nationalism was widely criticised in the press.

But it was no secret that something more was coming. Immediately after the departure from the gold standard, things, as the reader will remember, went remarkably well. People had been told of what happened in Germany in 1923, but there was no inflation here, and the pound before long found something like a level of its own, though no one could say whether it was a permanent one. Prices, moreover, did not go up in the way that had been predicted before the pound fell. Trade, too, began to pick up quite

Great Britain : Tariff Reform

briskly ; indeed, the depreciation of the pound was greeted by a section of the press as one of the best things that could possibly have happened to us. But there was a flaw in the amber. Other countries also went off the gold standard or imposed extra duties to counteract the advantages that followed the depreciation of the pound. We were still, all things considered, doing better than might have been expected, but, with the initial and most encouraging effect of the fall of the pound last September fresh in their minds, people began to get impatient. One often heard the question asked, is the National Government (which people had welcomed as a kind of god in a car) going to do anything after all ? What that "anything" should be was not clearly defined, but the possible alternatives seemed to be three in number: (1) to allow the pound to find its permanent level and form no fixed plan of action for the present, hoping that an improvement of the political situation through a settlement of the reparation question and the success of the Disarmament Conference, combined with international effort in the field of currency and finance, would start a general economic upswing ; (2) to reduce costs by adopting some such scheme as the Germans or the Australians had carried through by means of sacrifices all round, and (3) to impose tariffs or other measures of trade restriction. And there was little doubt in people's minds that it would be tariffs.

During the Christmas recess the fiscal policy of the Government took shape under the hand of two sub-committees of the Cabinet dealing with the balance of trade and with agriculture. As it was revealed by the Chancellor of the Exchequer on February 4, this policy was to impose a general tariff of 10 per cent. on all articles, except those already dutiable and certain specially exempted goods, including wheat (which is to be dealt with by a quota scheme), meat and bacon, British-caught fish, and wool and raw cotton. (When the text of the Bill was published it was found that the free list included also tea—which was

The New Fiscal Scheme

reserved for consideration, along with other beverages, at budget time—raw flax and hemp, hides and skins, newspapers and books, newsprint and wood-pulp, rubber, iron ore and scrap, tin ores, phosphates of lime and a few other commodities of less importance.) Besides these exceptions, goods from the colonies were to be exempt permanently, and those from the Dominions temporarily, i.e., until some new arrangement should have been reached at the Ottawa Conference. It is further proposed to establish an independent advisory committee "for the purpose of giving advice and assistance to the Treasury." The whole field of imports, with the above-mentioned exceptions, will be open to review by the Committee, which may recommend selected additional duties—as high or low as they consider necessary—for enactment by Treasury order after the Treasury has consulted with the appropriate department. No initiative will, however, rest with the Treasury.

Mr. Chamberlain prefaced his proposals with a review of the economic situation, beginning with the bright side. He referred to the improved revenue prospects—largely due to the patriotism of the taxpayer—to the fact that up to the present the cost of living has "almost miraculously" remained unaffected by the depreciation in the value of sterling, which itself has remained steady notwithstanding the repayment of its large foreign credit by the Bank of England without any loss of gold; to the fact that other countries, also forced off the gold standard, are looking to sterling as the best measure of the value of currency during the period of suspension from the normal standard. Lastly, he recognised the "definite but somewhat partial and uncertain improvement in trade," and what is, he added, perhaps best of all, the more hopeful feeling which undoubtedly exists to-day. In spite, however, of these bright features, we have not, Mr. Chamberlain pointed out, yet turned the corner, and he reminded the House of the deplorable condition of world trade as a result of the catastrophic fall of the gold prices of world

Great Britain : Tariff Reform

commodities and of the effects of this fall upon a great exporting country like Great Britain. Other bad features to which he alluded were "the extraordinary growth of trade restrictions," such as surtaxes, quotas, exchange control systems, etc., the reparations and war debts deadlock, and lastly the new disturbance in the Far East. Unemployment figures, too, he reminded us, still remain of colossal dimensions. The iron and steel trades were in a stagnant condition; shipping and industry generally were in the depth of depression. The good effects of the depreciation of the pound were being whittled away, and there could be no confidence that sterling would be firmly established with a heavy adverse trade balance (which Mr. Chamberlain estimated at £113,000,000, even allowing for invisible exports and interest on investments abroad), and with the limits of taxation practically reached and the volume of exports lower by nearly 38 per cent. than in 1929.

The objects of his policy as given by Mr. Chamberlain are summarised by us below :—

- (1) To correct the balance of payments by diminishing imports and stimulating exports.
- (2) To fortify our finances by raising fresh revenue without unduly burdening any section of the community.
- (3) To effect an insurance against the possibility of a rise in the cost of living which would follow an unchecked depreciation of sterling.
- (4) To introduce a system of moderate protection scientifically adjusted to the needs of industry and agriculture.
- (5) To enable our people under cover of this protection to adopt more efficient methods of production and distribution.
- (6) To give the Government a lever for the purpose of negotiation with foreign countries.
- (7) To enable us to offer the Dominions advantages in return for those which they now give us or may be disposed to give us.

On these proposals it had proved impossible to secure unanimity in the Cabinet; four Ministers, Lord Snowden, Sir Herbert Samuel, Sir Archibald Sinclair and Sir Donald Maclean, finding themselves unable to agree to them. It

The Discussion in Parliament

was, however, arranged that the Cabinet should not break up, and the dissentient Ministers were to be free publicly to oppose the measure.

III. THE DISCUSSION IN PARLIAMENT

CRITICISM has come from more than one quarter. To take that of the free trade members of the Cabinet first, they objected, above everything else, to the scheme on the ground of its permanence. This was Sir Herbert Samuel's main point in the speech which he made in the House of Commons on February 4. The Government had, he said, been given a mandate to take any measure, tariffs or anything else, that could be shown to be the necessary and the right way of redressing the unfavourable balance of trade and helping the nation in the present emergency. But, in the policy put forward, the redress of the balance of trade was only one of several purposes. The Chancellor of the Exchequer indeed had stated the case for a permanent scientific system of protection, the culmination of his father's tariff reform campaign of thirty years ago. Sir Herbert Samuel denied that there was anything in the present situation to justify such a measure. As for the adverse balance of trade, it was "disadvantageous" but not disastrous. It was only one of the causes of the depreciation of the pound, not a vital one, and, even if it were necessary to set the balance right, a 10 per cent. tariff would keep out too few goods to achieve that purpose.

I summarise therefore (said Sir Herbert Samuel) the objections which I submit to the Committee on the 10 per cent. all-round tariff. It is not the right way to deal with questions of the balance of trade; it will exclude an exceedingly small proportion of the goods which it taxes; the balance of trade effect will be merely secondary and incidental, and the protective and taxing effect will be primary and predominant. Secondly, this is not a measure which is temporarily dealing with the present emergency; it is intended to be, and it will be, of a lasting character. Thirdly, it

Great Britain : Tariff Reform

will tax to the extent of 10 per cent. a greater part of the materials of manufacture and the food of the people. We have to consider whether that is necessary and wise. It is no lever to secure the efficiency of industries, because the privilege of protection is to be accorded to all alike, without conditions. It is no weapon for bargaining with foreign countries, because it is to be the basis of commercial treaties with the Dominions, which will preclude such concession.

You cannot (Sir Herbert Samuel had said) go to the Dominions in July and say, "If you will give privileges to our produce we will give privileges to yours against foreign countries," and then, when an arrangement of that kind is signed and sealed to cover a period of years, afterwards go to the foreign countries and say, "If you cease to penalise our goods, we will give you privileges under our 10 per cent. tariff." It cannot be done. It would be contrary to the bargain entered into.

It might be worth while, he said, tying ourselves up for real Empire free trade, but that, as everyone knows, could never be agreed to by the Dominions.* Nor, continued Sir Herbert Samuel, was it only a matter of a general tariff of 10 per cent. Higher duties, without limit as regards either amount or time, could be proposed by the advisory committee. It was supposed to impose restrictions and qualifications, but could that be done by it without discrimination? Yet efficiency and prices were both essential matters.

The independent advisory committee itself came in for criticism from more than one angle. Sir Herbert Samuel, for instance, pointed out that this committee would have to survey the whole field of British industry in order to make its proposals with regard to duties before the Abnormal Importations Act ceased to have effect, i.e., in a few months, and he considered that this would be an impossible task. Mr. Amery, too, thought that the Chancellor was putting too much upon the committee, and he further considered that he was withdrawing too much from the responsibility of the Government. He did not indeed feel happy that the committee was being

* An article on Imperial Preference will be found on p. 246.

The Discussion in Parliament

given anything like sufficiently definite marching orders. He pointed out how "curiously chaotic" the present tariff situation was in this country. The differences between existing tariffs had nothing to do with the structure of industry and had arisen purely at haphazard. Captain Macmillan would have developed the tariff committee "into something more than a merely judicial body following the rather unsatisfactory system of the safeguarding duties inquiries," and more on the lines of a real development commission directing and planning the growth of our economic life. Mr. Amery welcomed the Government's measure, but he welcomed it as "an initiative, an adumbration of a tariff . . . a fledgling rather than a grown bird," and he had some fundamental criticisms to make. The fault he found with the 10 per cent. general tariff was the same as Sir Herbert Samuel's—a case of extremes meeting. It was, he said, totally inadequate to perform its purpose. He was, however, thinking more particularly of the protective object in Mr. Chamberlain's seven points. The revenue point he brushed aside—you could get more, he said, by transferring industry to your own country. It would take some time, too, he felt, for the advisory committee to frame the new scale of duties, and meanwhile time would be given for more dumping and uncertainty. The essence of the matter was, in his opinion, time. Many industries were already at their last gasp. Moreover, foreign firms, now thinking of setting up industries here, would naturally wait till the committee's recommendations were out. It would, he thought, have been infinitely simpler to have adopted his own plan—to impose a general emergency industrial tariff of two or three or four grades. It could then, he claimed, have been easily adjusted to "whatever standard and appropriate rate of the highest duties on fully manufactured goods the Government decided upon." And the committee could have been left to rectify mistakes.

Great Britain : Tariff Reform

Sir Herbert Samuel outlined to the House some alternative constructive proposals that he had put before the Cabinet. Briefly, he would have set up an industrial commission to which our industries could submit schemes of rationalisation and for raising capital. If they needed protection during the process he would not be against giving it "whether by licences, quotas or in any other way," subject, however, to conditions as regards prices and to the period being only for so many years, to the consumers having a say in the matter and to each scheme obtaining the sanction of Parliament.

Mr. Runciman's speech five days later was awaited with considerable interest. He had himself always been a free trader and he claimed to be one still. Some of the decisions, he said, inevitably went very much against the grain with him, but the pre-war days, and indeed the pre-crisis days, had gone. He approached the matter as a business man. Sir Herbert Samuel himself would have granted protection for certain purposes. In considering the Government's proposals, Mr. Runciman claimed that he did so mainly as "a director of slimming." Imports had to be thinned down. He agreed with Sir Herbert Samuel that a 10 per cent. tariff would not redress the balance of trade. It would only contribute to that end. But, he added, "the additional duties will fill up the gap." Sir Herbert Samuel had devoted the greater part of his speech to the 10 per cent. tariff—Mr. Runciman indeed twitted him with the comparative mildness of his criticism of the additional duties—but Mr. Runciman himself also concentrated his arguments to a very large extent on the 10 per cent. duties. The point with which he was especially concerned, by contrast with Sir Herbert Samuel, was revenue, though he referred to the "gentle protection" that would result from the duties, to their "slimming" effect and to their value for bargaining purposes. But the £30 million which would be obtained from the 10 per cent. general tariff—and without increasing the cost of living at all—was essential.

The Discussion in Parliament

"The consolidation of the internal financial position, especially from a revenue point of view, and with special relation to our obligations and our capacity to carry through transactions abroad," was the paramount consideration. "We cannot," he said, "afford to reach March 31 short of the full revenue to meet the expenditure of the year." In spite of some bright features in the situation, we were by no means through the crisis. Capital was still being withdrawn from London. The exchange bonus we got from the gold basis countries must disappear in time, as the sterling area, which already included pretty nearly half of the world, extended, and as prices were readjusted. It was the budget of last August and September that kept up the reputation of sterling, that and our enterprise and the integrity of our financial houses. But the splendid effort of the taxpayers (many of whom had had to borrow the money at close on 7 per cent.) could not be relied on again, while the crisis in the Far East and the sudden new increase in unemployment* threatened to add to expenditure. The Bank of England had repaid its credits of £50 million, but there still remained £80 million more which the Government itself had to pay. We could not afford to neglect any source of revenue open to us.

Let me make a very rapid summary, therefore (said Mr. Runciman), of the position in which we find ourselves. We are off gold. We are anchored to trade and confidence. We have only been able to achieve that anchorage by keeping our revenue right up to the level of our expenditure, or, if you like, keeping the expenditure down to the level of revenue. If confidence abroad slackens or is diminished, we shall find the effect of that upon our people here and our industries grave indeed. Indeed, the position will become increasingly worse. As I understand statements made here and elsewhere, there is no member of the Cabinet who says "Leave it alone and it will come all right." No one says that. All that has been swept away—all patient complacency—from the public mind. Neither the public in this country nor elsewhere would regard this

* The number of unemployed at January 25 was 2,592,650, an increase of 218,490 over the previous month.

Great Britain : Tariff Reform

country as being in a safe position if we were to allow things to drift. We cannot afford to do so.

With half the world off gold, automatic adjustment of our payments and balances abroad could no longer be expected from the ordinary operation of the foreign exchanges and so forth. The Government could deal with the balance between exports and imports, but they could not do much to extend exports except by negotiation, and for that purpose they could, if necessary, reduce the 10 per cent. to get a *quid pro quo*. Mr. Runciman saw no such tendency on the part of northern European countries as Sir Herbert Samuel had mentioned to reduce tariffs in recent months. As regards permanence, nothing in this life, he said, certainly nothing in our fiscal system, was permanent. The advisory committee would have a definite mandate, namely, that it

should have regard to the advisability in the national interest of restricting imports into the United Kingdom, and the interests generally of trade and industry in the United Kingdom, including those of trades and industries which are consumers of goods as well as those trades and industries which are producers of goods.

It remains to describe the Government's policy with regard to agriculture, with which Sir Herbert Samuel is definitely in sympathy except as regards the tariff proposals. It was announced on February 11 by Sir John Gilmour that agriculture and horticulture would be affected as well as industry by the 10 per cent. general tariff and by the advisory committee's power of raising duties. The wheat producer was to be assisted by a quota scheme intended to give him a guaranteed market and an enhanced price for grain of millable quality. The question of imposing an additional duty on malting barley (or alternatively of adopting a quota scheme for it and the commodities at present covered by the horticultural duties Act of 1931) was being considered.

As regards milk and milk products, the Government aimed at the improvement of marketing. A reorganisation

The Discussion in Parliament

commission was to formulate schemes, and would also go into the question of diseases in dairy herds. A scheme for the organisation of the bacon industry was being prepared and, if satisfactory, the Government would be ready to regulate imports quantitatively. The same thing was proposed for the potato growers and a special reorganisation commission would be appointed, if desired by them, to prepare a scheme. Agricultural questions and research and land settlement were to be promoted as far as our means would permit. Attention would be paid to better grading and identification of home products. No changes were proposed in the system of regulating agricultural wages, but the attention of workers would be drawn to existing facilities for obtaining redress.

Cabinet Solidarity

But there remains another question, the constitutional one of Cabinet solidarity. The common belief has been that, if there is a split in the Cabinet over a point of first-class importance, the dissenting minority must resign, and the novel spectacle of the Home Secretary, Sir Herbert Samuel, in his normal place on the Government bench, standing up and using his considerable powers of argument in order to demolish the Government's proposals excited considerable feeling. Votes of censure on the Government were moved in both Houses: in the Commons by Mr. Lansbury and in the Lords by Lord Banbury—another interesting example of extremes meeting. History and precedents were freely quoted. It was claimed that the doctrine of collective Cabinet responsibility was only a century old and that it really grew with the party system. Lord Hailsham quoted cases in which Cabinet Ministers had voted against the Cabinet, the latest being that of Sir Austen Chamberlain and Lord Carson, who both voted against the Government of which they were members on the question of women's suffrage. Most of the critics were, however, more concerned with practical considerations

Great Britain : Tariff Reform

than with precedent. Queen Anne is dead, but the British constitution is a living ever-changing organism. That is its strength. The real question is what would be the consequences of this new departure? Extracts from a Liberal newspaper were read in the House of Commons welcoming the retention of the four free-trade Ministers, and pointing out that "free traders were now bound to mobilise for the support of their principles." Mr. Baldwin complained some time ago at Aberdeen that "one of the difficulties of a coalition Government was that when you passed the ball you never found the other member of the team in the right place." This was not, however, said Mr. Boothby, what the Unionist party objected to in Sir Herbert Samuel. He was exactly in his right place, but when the ball was passed to him "he shot as hard as he possibly could at his own goal." He ought, they felt, to change his jersey. But the main attack was on the Government itself for making the agreement to differ. Sir Herbert Samuel had made it clear that it was not the dissentient Ministers who had been unwilling to go—they had offered to resign—but that their colleagues, at the instance of the Prime Minister and the Lord President of the Council, proposed that the Cabinet should hold together. Lord Snowden, too, declared that the condition that he should have the right to express his own views in the country was not claimed by Sir Herbert Samuel himself but conferred on him by the Cabinet. In spite of the steam let off in the course of the debates, the result in both Houses was an overwhelming defeat of the vote of censure. In the Commons there were only 39 ayes against 438 noes, and in the Lords 7 contents and 74 not-contents, and the Conservative critics, except Lord Banbury, voted with the majority in both Houses. The Government's action was supported on various grounds. Some, as Lord Hailsham pointed out, acclaimed it as an advance forward towards a new principle in political government. Others welcomed it as a return to the good old times when everyone,

The Discussion in Parliament

Ministers as well as others, could speak their minds. Lord Snowden's view was that "all human progress has been made by ignoring precedents."

There is little doubt that the decision of the Cabinet to hold together has the support of the country generally. It elected the Government as a national, not as a party, Government, and it wishes it to go on with its task, which it has hardly begun. The Liberals, whatever the feeling of the younger men, are prepared to fall in with the decision of their dissentient Ministers, and Lord Grey has given it his blessing.

There are indeed only two questions: first, is the new departure in the interests of the country and, second, will it work in this particular case in practice? The first question has already been answered by Parliament. Its justification is the number of vital questions which remain to be dealt with, and on which the Cabinet is agreed, *e.g.*, disarmament, Imperial and foreign relations, reparations and war debts, monetary policy, India, unemployment, and the trouble in the Far East. The second question will be answered by the event.

It is possible, however, to consider the prospects. It is obvious that the fears of Conservative critics were not without foundation. Lord Snowden himself remarked that no one could tell how the new experiment would work. Free-trade opposition is clearly not going to remain content with one final protest. "That," said Lord Snowden, "speaking for myself, and I should think for my dissenting colleagues, is a condition that we would not accept. It (free trade) will be an issue at the next election," and the free trader cannot, he added, be expected to leave the field between now and then—it may be for years—open for the protectionists, though he agreed with Lord Banbury that they must defend their proposals outside and not inside the Cabinet. On the other hand, the Cabinet itself obviously believes that the experiment will work. Otherwise they would never have unanimously agreed to it,

Great Britain : Tariff Reform

and Lord Snowden himself, in spite of his uncompromising attitude, thought the arrangement worth trying, and he further told the House of Lords that it would, in his opinion, "be justified by results." He believed "that we shall be able to co-operate and to continue to co-operate in carrying out the work for which the National Government was formed."

IV. THE INDUSTRIAL POSITION

THE break-away from the gold standard encouraged a burst of industrial optimism, which the experience of four short months has sadly chastened. The advantages seemed so clear, the benefits so unmistakable. It appeared to be almost a matter of simple arithmetic that, if at a stroke we could cut our selling prices in terms of gold, our exporting position would be enormously strengthened. But even in the first weeks of the new era, prudence dictated that hopefulness should be hedged round with the most gloomy reservations. Now, after five months, the reservations have overgrown and almost checked the hopes. There was up to Christmas an increase of employment in Great Britain at a time when most other countries saw their unemployment figures rising, but there has been no increase—rather a diminution—in the volume of world trade, and in world purchasing power.

In the last number an impression was given of the first reactions of the cheaper pound on British industry. It is much harder to assess their present force. The improvement in employment has been the most tangible sign, and the latest figures show that it was largely deceptive. Between September 28 and December 21 the number of persons on the unemployment registers of Great Britain dropped by 315,800. From the end of October the registers began to be influenced by the disallowances of benefit under the Anomalies Act (which in the main affected married women); from towards the

The Industrial Position

end of November the disallowances of transitional benefit under the means test began to be felt. Of course, disallowance of benefit does not necessarily entail removal of the applicant's name from the unemployment register, but by December 21, on the Ministry of Labour's estimate, 90,000 of the apparent reduction in the number of unemployed persons was accounted for by the withdrawal from the registers of these disallowed claimants to benefit. This made out the net reduction attributable to an increase of employment to be 225,000, a fairly substantial figure. But the seasonal falling off in employment after Christmas was rather heavier than usual, and the unemployment figures for January 25 showed an increase over the December total of 218,000. This was spread over most industries and parts of the country, and indicated a distinct setback.

As, according to the Ministry, the administrative changes did not vitiate the occupational figures for December, some idea can be formed of the changes in the last three months of the year. The following figures illustrate how the earlier improvement in employment was most marked in textiles and coal, was less noticeable in the heavy manufacturing industries, and was absent altogether in shipbuilding and the shipping services. Building suffered a sharp seasonal increase.

		Percentage Unemployed				Percentage Unemployed	
		Septem- ber 21	Decem- ber 21			Septem- ber 21	Decem- ber 21
Coal mining	..	30.4	24.6	Steel melting and			
Textiles :—				iron puddling, etc.	49.2	45.4	
Cotton ..	..	45.8	27.4	Tinplates ..	42.3	36.5	
Woollen and				Engineering, General	30.1	26.8	
worsted ..	..	35.5	16.6	„ Electrical	15.0	15.1	
Silk manufacture				„ Marine	49.3	51.2	
and artificial				Motor vehicles, etc.	23.6	22.2	
silk weaving ..	..	36.9	22.6	Shipbuilding and			
Artificial silk yarn	..	31.3	21.9	repairing ..	58.2	60.1	
Linen ..	..	32.6	19.8	Shipping service ..	32.5	34.7	
Jute ..	..	48.3	36.6	Dock, harbour and			
Hosiery ..	..	18.6	10.7	river service ..	38.7	35.4	
Lace ..	..	24.2	14.3	Building ..	21.0	28.6	
Textile bleaching,				Public works con-			
etc. ..	..	39.6	28.4	tracting ..	31.0	35.6	

Great Britain: Tariff Reform

The export returns have not reflected an expansion commensurate with this increase in activity. In textiles, from which most might have been expected, the November and December results were particularly disappointing, although January made a slightly better showing. But under the extraordinary conditions of the crisis, the trade returns throw very little light on the real competitive ability of British industry as it has been changed by currency depreciation. Every exporting industry has found its outlets increasingly blocked by steeper tariffs, import regulations and exchange restrictions. A disproportionate part of recent activity has probably been for the home market, but here again it is difficult to weigh up the respective influence on production of import duties and prospective tariffs, of higher gold prices of imports, of wholesalers' anxiety to cover themselves against higher prices, and, on the other side, of forestalling by foreign manufacturers. The bullish atmosphere created by the steadiness of sterling and the political enthusiasm for the tariff may have assisted to keep up the home market, while, at the same time, it has served to obscure the extremely unpromising outlook for exports.

Nothing better can be expected so long as all countries continue their desperate efforts to sell, and simultaneously to prevent other countries from selling to them. The depreciation of sterling, and of the other currencies that followed it, provoked early retaliation in the shape of anti-dumping measures, notably in France, Canada, South Africa, Germany and Holland, intensifying the strangling network of restrictions on all dealings in foreign exchange, which has become almost universal. The British coal industry, for example, found its currency advantage largely neutralised by retaliatory measures like the French and German quotas for imports, the Italian surtax and landing-tax, and by counter-action like the strenuous efforts of the Polish owners—aided by fresh Government subsidies and lower wages—to maintain their exports at all

The Industrial Position

costs. The cotton industry received a shock when Japan also left gold (in December), and although anti-Japanese feeling should preserve the China market for Lancashire, the military operations there make the demand partially ineffective. It is of limited value to industries such as these to know that their home market is protected by 50 per cent. duties on the top of the exchange protection. Even the woollen and worsted industry which, as the figures quoted show, has the largest fall in unemployment, is largely dependent on exports, and cannot look to either a home monopoly or an extended Imperial trade as a sufficient substitute for its trade with foreign countries.

It can hardly be said that the five months since September 21 have worked any serious change in social standards. The cost of living advanced no more than might have been expected seasonally, and retail prices do not, as yet, show much tendency to rise. Last year saw the most considerable reductions in wage rates of any year since 1922, equivalent, on the Ministry of Labour's reckoning, to an average reduction of 2 per cent. over the whole field of industry, but few changes took place in the last three months of the year, and the movement appeared to have slackened. A second wave is now apparent. In January dockers' wages were reduced by 10d. a day (or 7 per cent. for piece workers), the first change since 1924. This was an interesting settlement, because in the summer the dockers had stood out against any reductions, in the hope that, by taking a stand against deflation, they might reverse a process which to them seemed endless and disastrous. Depression proved, however, more potent than theory, and an agreement was negotiated whereby, at the price of a sacrifice of wages (which still left rates as high as in 1923), they preserved the working conditions which the employers had menaced. The acceptance of the agreement by the great mass of the dockers—once so unruly and so easily inflamed—was a triumph of loyalty and discipline for the Transport and General Workers' Union; its

Great Britain : Tariff Reform

members stood firm while the small Thames union of watermen and lightermen carried on all through January and into February a solitary struggle against the new terms. The historian of Labour during the crisis will probably note the curious fact that the most active endeavours of Communist propagandists to influence the dockers utterly failed, and, indeed, provoked physical resentment against their interference. The reductions in the wages of officers and men in the shipping service, negotiated in December and January, were also dictated by the extremely serious depression in an industry which, although "unsheltered," had long maintained rates unaltered.

In other industries dependent on export trade there have been few recent changes. The Yorkshire heavy woollen industry in January enforced the wage cuts adopted by other sections of the trade last summer. The movement among the "sheltered" home trades for reductions was seen in the proposals of the London Underground Group for a temporary cut in London transport wages, the agreement for a reduction of tramwaymen's wages, and the action of local authorities in lowering the wages of some classes of their employees.

The cotton industry again presents a spectacle of disturbed industrial relations. At the end of the year the Federation of Master Cotton Spinners' Associations ended the 48-hour week agreement entered into in 1919, but without substituting anything in its place. The intention of securing an agreement for an extension of the working week (a return to the pre-1919 figure of 55½ hours was in contemplation) was frustrated by the unions' refusal to negotiate and by the lack of support from the other sections of employers in the industry. The spinning section of the industry is therefore left without an agreement. So far, however, only a small isolated group of employers, who had broken the agreement while it was still in force, are not observing the 48-hour week. The

The Industrial Position

incident appears to have no moral except to illustrate the tendency in the textile industries for collective bargaining to lose its old strength. This has already been the experience in the woollen and worsted industry, and it is being repeated in the cotton manufacturing districts, where pressure of internal competition has led to many breaches of wages and hours agreements, and where the unions' reluctance to accept changed methods has led many employers to make their own bargains with their workpeople. The negotiations for a county agreement on the operation of the system by which a weaver works more than four looms have pursued an uneasy course, but with better hopes of success than at any time in the last two years.

The same weaknesses and lack of purpose have been displayed in Lancashire's reception of the scheme put forward by the Joint Committee of Cotton Trade Organisations for the elimination of surplus plant. The proposal is that the industry should go to Parliament for powers to raise money for the purchase and immobilisation of surplus machinery. A levy would be imposed on existing machinery, the proceeds of which would provide service for the loan. A body of trustees, appointed by Parliament, would receive offers of plant which its owners would rather sell at a low price than keep in idleness or assessable to the levy. The existence of a redundancy of at least a fifth of the industry's productive resources has been made abundantly clear. On the most optimistic estimate of the volume of trade that Lancashire can hope to recover in the post-war world, the existence of the surplus remains a fact. The Joint Committee's argument is that all constructive attempts at reorganisation are kept back by the continuance of bitter internecine competition, and that before there can be any successful approach to the problems of amalgamation, of improved distribution, of technical advance, there must be concentration of production in the more efficient plants. The assumption—which appears to be

Great Britain : Tariff Reform

fully justified—is that in spite of the bitterness of the prolonged depression the normal economic forces have not forced the weaker units out of action quickly enough and are not likely to do so. The industry is urged to attempt to shorten the inevitable process by a surgical operation. The obvious objections are that the cost of the scheme forms an addition to production costs (although, it appears, only a fractional one), and that, as there is no compulsion on owners to sell, the administrators of the scheme will not have full liberty to select and close down the most clearly redundant units. The latter defect is probably inherent in any scheme that comes from an industry nursed in such strong *laissez faire* traditions and comprising such a multiplicity of units. If the cotton or any other industry is to place itself on the dissecting table of the scientific rationaliser it will hardly be of its own volition. As it is, the fate of the cotton scheme is in the balance ; it threatens to be defeated not on its merits but by the deadweight of hostility to any kind of united action. A large section of the disorganised industry still prefers to continue (to quote the phrase of the president of the Manchester Chamber of Commerce), as a “mutual suicide society.” Still, the very emergence of such a scheme (as of the earlier one in the shipbuilding industry) does mark an advance in industrial opinion. How far it is likely to receive stimulus from the Government or Parliament is not clear. Sir Herbert Samuel’s proposals to the Cabinet pointed in the direction of State-sponsored reorganisation, and although the idea seems to have been temporarily submerged by the tariff, it may not be lost.

THE IRISH FREE STATE ✓

I. THE GENERAL ELECTION

DECEMBER 6, 1931, was the tenth anniversary of the fateful night when the Anglo-Irish Treaty was signed at Downing Street. The executive which then took over the government of the newly created Irish Free State still remains in office. There have been, of course, numerous changes in its personnel. Collins and Griffith, the principal architects of the new Ireland, died before it was a year old—Collins shot in an obscure ambush by his own countrymen, Griffith dying, ten days afterwards, literally of a broken heart. In that tragic hour few believed that William T. Cosgrave, the quiet, little, almost unknown man, so accidentally called to control the destinies of his country, was likely to remain in power until his Government was the oldest in Europe. That he has done so is a tribute not only to his personal qualities of courage, shrewd political sense, and determination, but also to the colleagues who have given him loyal support, and the people who were wise enough to place and renew their trust in his wisdom and integrity. Moments there have been during those ten years when grave decisions had to be taken. Such crises arose when the northern boundary had to be finally settled, when Kevin O'Higgins, Mr. Cosgrave's right-hand man, fell before the assassin's bullet, when Mr. de Valera and his party entered the Dail, and quite recently when armed conspiracy once more threatened the stability of the State.

The political fortunes of this country will, this year, again be thrown into the melting pot of a general election. The Government having seized the earliest opportunity

The Irish Free State

to take the verdict of the electors, it has now been decided that polling will take place on February 16. Mr. Cosgrave could, of course, have remained in office till September, when his Government's term would expire, but the world developments in economic affairs, which involve the relations of the Free State with other countries—and especially with Great Britain—make it imperative that the Government which handles these difficult and delicate questions should have a fresh and decisive mandate from the people. Moreover, the Eucharistic Congress, which takes place in June, would have made it impossible to hold a general election during the summer months. The Cumann na nGaedheal, or Government party, is standing on its past record. It claims, with considerable truth, that by its policy of scientific tariffs, improved agricultural production, conservative finance, and completing land purchase, it has placed the economic life of the country on a sound basis. On the political side it points to the Statute of Westminster as embodying the full fruits of its external policy, which has aimed at achieving the co-equal status of all the States in the British Commonwealth, and to the position of the Free State on the Council of the League of Nations as proving that we have once more taken our rightful place amongst the nations. At home it justly claims to have restored order and secured respect for the law. The prospect of obtaining from the British Government a preference for Irish agricultural produce should undoubtedly secure many votes in the rural districts, where the farmer has a shrewd idea of the benefits that closer economic relations with England would entail. There can also be little doubt that an agreement has been reached with the British Government about the right of appeal to the Privy Council, and that, already dead *de facto*, this right will soon be formally repealed.* It

* See THE ROUND TABLE, No. 78, March 1930, p. 365, *et seq.*, and No. 84, September 1931, p. 859.

The General Election

is not explicit in the Treaty and only arises because Article 2 in matters of doubt applies Canadian constitutional practice to the Free State. Inasmuch as this appeal has long ceased to be an even nominal protection for the minority whom it is supposed to safeguard, and who are in no peril, it may just as well be formally and decently buried and forgotten. This then is the strength of the Government's position and programme.

But there is another side to the story. It cannot be denied by any competent observer that the Government is unpopular for many reasons. In the first place it has administered the law and enforced taxation with stern impartiality. It has abolished the old system, deeply rooted in Irish life and tradition, of making influence rather than merit the deciding factor in public appointments. In this connection it is interesting to note that Miss Dunbar Harrison—the young lady whose appointment as librarian in County Mayo* created such a dishonest *furor*—has now been promoted to the position of librarian in a Dublin government office, a solution which is fair to the lady, soothing to the Mayo bigots and good for the Government. The Government is also unpopular amongst a large and soft-headed section of the community who are always prepared to condemn any strong action, such as the setting up of the Military Tribunal, as tyrannical. It has spent considerable sums of money on public works like the Shannon power scheme, the value of which is not at the moment self-evident, and it has refused to yield to the interested clamour of certain industrial interests for "whole-hog" measures of protection. It is quite true that any new Government, if it desired to survive, would have to adopt similar methods, but this is a simple truth which the average Irish elector has yet to learn. It is indeed one of the strongest arguments for a change of Government, were a really strong and competent alternative Government

* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*, and No. 84, September 1931 p. 857.

The Irish Free State

available. Irish voters do not, however, quickly or lightly change their allegiance, and it is very difficult to say how far the feelings above referred to will find expression in the ballot box. There has undoubtedly been during recent months a marked consolidation of moderate constitutional opinion, as is proved by the fact that Captain William A. Redmond, T.D., has now joined forces with the Government party. At a big meeting in Waterford, Captain Redmond's constituency, on November 15, the reconciliation was sealed by his appearance on the same platform with Mr. Cosgrave, who paid a warm tribute to the services rendered to the cause of Ireland by the old Irish party, and said that the freedom we now enjoy would not have been possible but for the efforts of its leaders. Captain Redmond, on his side, said that he was there to give practical effect, both in spirit and letter, to the response that he made to Mr. Cosgrave's appeal for co-operation. It was idle to deny that there had been differences between them in the past, both of method and of policy, but he could, as an Irishman, claim that they had at any rate one common object, and that was the welfare of their country. This new political alliance is both natural and sincere, but it may be doubted whether its advantage to the Government party will be very great. Captain Redmond's many friends will undoubtedly rejoice that John Redmond's son has at last taken his proper place with the moderate and constructive element in Irish politics, but most of them had already preceded him in that direction, and, like the Duke of Plaza Toro, it is to be feared that he is now leading his army from behind. However, his adhesion to Mr. Cosgrave's party will undoubtedly bring it support, particularly in Wexford and Waterford, where his father's name is justly revered, and many supporters of the old Irish party throughout the country, who have been inclined to sulk in their tents since the Treaty, may now exercise their votes as he suggests. As Captain Redmond has in the past acted as one of the chief spokesmen and supporters

The General Election

of the licensed trade in the Dail it is quite likely that he may now also secure their support for the present Government. In this connection it is interesting to note that the Government have apparently dropped the Intoxicating Liquor Bill* they introduced in the early part of last year, and that Mr. Cosgrave, replying to a deputation from the trade at Waterford, indicated that if a private Bill was introduced embodying their demands it would receive consideration. The Government can, of course, also count upon the support of the Independent group, which to a great extent represents the Protestant and ex-Unionist elements, and also upon what remains of the former Farmers' party, which has been virtually absorbed by the Government since 1927. The Independents are certain to come back almost intact, as they represent a vote which is not likely to alter, and will probably be augmented by many voters who do not care to leave the Government in uncontrolled command of the political scene, but who nevertheless shrink from supporting Mr. de Valera. It is not improbable that a national panel will be formed of all candidates who generally vote in support of the Government on critical issues, and this would include men like Mr. Anthony and Mr. Morrissey, the two Independent Labour deputies whose support was recently given to the Government during the debates on the Constitution (Amendment) Act.

The policy of the Fianna Fail party at the election was clearly laid down by Mr. de Valera in his address to the sixth annual *Ard Fheis*, or Congress, of the party on October 27. If Fianna Fail secures a majority its first act will be to remove the oath of allegiance from the constitution. After this has been done a fresh general election will be held within a year or two, so as to give the extreme republicans, who now refuse to recognise the authority of the present executive government as constituted by the Treaty and constitution, an opportunity to secure repre-

* See THE ROUND TABLE, No. 83, June 1931, p. 619, *et seq.*

The Irish Free State

sentation. This new assembly would sit as a constituent assembly deliberately charged with the revision of the constitution, so as to bring it, as far as possible, into accord with the national ideals. To avoid legal difficulties, the office of Governor-General might have to be retained in the initial period of taking over, but the ultimate aim would be to assimilate the office to that of President of the Republic. Mr. de Valera, no doubt stirred by old memories, has probably envisaged himself as the occupant of this position. The whole question of a second chamber, or, if such were thought desirable, of its composition and size, would be referred to the Constituent Assembly. It is noticeable that since Mr. de Valera's supporters have, by the process of proportional representation, begun to permeate the Senate his previous demand for the complete abolition of that body has been watered down. His most interesting admission was that he saw no immediate solution of the partition problem, that force was out of the question, and, were it feasible, not desirable, and that the only hope he could see for the reunion of our people was good government in the Free State and the establishment of such social and economic conditions as would attract the majority in Northern Ireland to throw in their lot with us. This is, of course, the attitude of the present Government. In regard to our relations with Great Britain, he defined the attitude of Fianna Fail as one of non-co-operation so long as Britain persisted in any attempt to force the terms of the imposed Treaty upon us. As regards economic problems, their aim was to make Ireland as far as possible self-sufficing. Home producers were to be given security in the home market, and every branch of agriculture would be protected; wheat growers would be given a guaranteed market at a fixed price based on the cost of production for all the sound milled wheat that they produced, the importation of such foreign wheat as was needed would be placed in the hands of a Wheat Control Board, and the importation of flour—except the relatively small quantity required for biscuit making—would be

The General Election

prohibited. In dealing with questions of agricultural and industrial development they propose to have the aid of an advisory council whose function it would be to examine and report to the Government on the possibilities and methods of promoting existing industries and establishing new ones. Care would be taken to ensure that fair working conditions were maintained in all the protected industries and that there was no profiteering at the expense of the community. A national housing board would be established with power to enter into contracts for building, to control the trade in building materials, and if necessary to engage directly in their production and importation, and in the erection of houses. They also propose to proceed with a systematic division of the larger agricultural holdings.

During the subsequent proceedings Mr. de Valera stated emphatically that there was no body in this country with the right to take human life, and, although he did not except the properly constituted government of the country, we must presume that this was implied. Such an admission would have been more valuable if it had been made many years ago. Even this statement was made extempore, and by no means coincides with the attitude taken up by Mr. de Valera's new paper, the *Irish Press*, or with the views of many of his own followers. It is obvious that on this, as on many other questions, his party speaks with two voices, and if it does not win the election—or even if it does—these divisions are likely to be accentuated. His promise to retain the land annuities in the Free State Exchequer and to apply their proceeds to a scheme of complete de-rating, to reducing uneconomic annuities, and to industrial development, still remains a prominent feature of his programme, and will no doubt secure him votes in the rural districts, although it would, of course, be more attractive if it involved, as his wild men originally stated, the non-payment of annuities to anyone.*

* See THE ROUND TABLE, No. 74, March 1929, p. 379, *et seq.*, and No. 80, September 1930, p. 820.

The Irish Free State

It is notorious that the Fianna Fail war chest is not in a healthy condition, and during the proceedings at the Congress Mr. Lemass, T.D., definitely stated that the task of raising an adequate election fund had still to be faced, and indicated that each constituency would have to be self-supporting to a very large extent.

The Labour party is in somewhat similar plight, and if it succeeds in returning the same number of members as at present it will be fortunate. Its strength lies chiefly in the urban districts, and its policy of modified State socialism makes little real appeal to the working class. It may, however, occupy a very important position after the election, because it is not improbable that it will hold the balance of power between Fianna Fail and the various parties aligned behind the present Government. Its decision in that event would undoubtedly be influenced by the class of Labour member elected. The present leader of the party, Mr. O'Connell, T.D., is a national school teacher of moderate views who would hardly be happy in the same boat as Mr. de Valera's followers unless he could definitely decide the course it was to take. His dilemma is indeed that of all reasonable and intelligent voters because, as Mr. Desmond Fitzgerald, the Minister for Defence, has recently pointed out, the Irish people have a perfect right to change the existing constitution in any way they like, and could even remove the oath clause in the Treaty by denouncing the Treaty, but in that event the British would have the right to assert any powers they had before the Treaty, and a nation which broke a treaty could not expect the goodwill or moral support of the world. Moreover, the man in the street is perfectly well aware that if Mr. de Valera obtains a majority in the Dail, his Government will not be in power for two months before the hedgerow heroes—who have diplomatically disappeared since the Military Tribunal was set up—assert their authority by their usual methods of the threat and the gun, and Mr. de Valera, as he has always done, will toe the line and

The General Election

do what he is told—if indeed he is not unceremoniously kicked out—and people of his Kerensky-like temperament usually are. The real intentions of the Irish Republican Army are clearly indicated in a document recently captured and published by the Government, which counsels a suspension of drilling and violence pending the general election, and calls on its members to wait and to feel confident. It is obvious that the present policy of the extreme element is to lull the moderate voters into a sense of false security, so that they will vote for the Fianna Fail party, and to renew their own activities if and when Mr. de Valera is returned to power. This policy is also dictated by the fact that the Military Tribunal set up under the Constitution (Amendment) Act* has begun to function and is discharging its task with justice and expedition. Its sentences have been reasonable, and its general conduct inspired by the simple rule that the innocent shall not be convicted and the guilty shall not escape; in fact it has administered the law without fear or favour, and, as Captain Redmond cogently pointed out in the Dail, people who claim to be soldiers cannot object to being tried by soldiers. In several cases those brought up for trial have confessed the error of their ways and have been released on their own undertaking not to take part again in illegal organisations. The only severe sentences so far inflicted were those of five and three years imprisonment on the brothers Gilmore, two typical young fanatics, who were convicted of assisting in the foundation of an illegal military force and of being in possession of arms and ammunition—namely, the large cave dump of military stores found near their house at Kilakee in the Dublin mountains. The attitude of Sinn Féin, Miss Mary MacSwiney's organisation—which is now as dead as a door nail and merely playing at politics—towards the election is quite simple as it will neither nominate candidates nor permit any of its faithful few to vote. As it is still naïve enough to believe in the existence and

* See THE ROUND TABLE, No. 85, December 1931, p. 142.

The Irish Free State

the *de jure* rights of the Second Dail (which ceased to exist in 1922) it is naturally difficult for anyone to take it seriously. No one has yet explained what will become of the true republican government when the last member of the Second Dail joins the great majority. The strength of the parties at the dissolution was as follows :—

<i>Government Bloc</i>		<i>Opposition Bloc</i>	
Cumann na nGaedheal ..	65	Fianna Fail.. ..	56
Independents	11	Labour	10
Farmers	6	Independent Republican ..	1
Independent Labour ..	2		
National League ..	1		
<hr/>		<hr/>	
Total	85		67

During the recent session of the Dail the Government were forced to introduce a supplementary budget, owing to an estimated deficit in tax revenue of £900,000. The greater part of this sum is caused by a fall in the revenue from the duties on liquor, which is partly due to a decline in consumption and partly to trade factors. To meet this deficit, income tax has been increased by 6d., which still leaves our standard rate 1s. 6d. in the pound below the rate in Great Britain, and the tax on petrol has been increased by 4d., bringing it up to the British rate. New tariffs have also been imposed of 20 per cent. on harness leather, 2s. 6d. per hundredweight on oats, and 6s. per hundredweight on oatmeal. The change in the tariff policy of Great Britain has necessitated the passage of an Act giving the Government power to impose customs duties to prevent dumping without going through the ordinary legislative procedure, as it is anticipated that foreign manufacturers who have prepared goods for the English market on which an English tariff has been imposed, are likely to divert them here. A heavy tariff on foreign bacon, ranging from 50s. per hundredweight on bacon not exceeding 30s. per hundredweight in price to 5s. per hundredweight on bacon not exceeding 75s. per

The General Election

hundredweight in price, has already been imposed under the Act, but it does not apply to bacon imported from the British Commonwealth. This tariff was rather unexpected, as the whole question of a tariff on bacon has been recently referred to the Tariff Commission. Mr. Hogan, the Minister for Agriculture, who is notoriously opposed to tariffs, stated recently in the Dail that we were forced to impose high tariffs in order to save ourselves from the bankrupt sales of countries who have been brought to bankruptcy by high tariffs, and that the only permanent hope for the world is less protection and more free trade. He pointed out that if all imports of agricultural produce were now stopped or prohibited we should still have an export surplus of close on thirty million pounds' worth of agricultural produce which our home market cannot absorb.

The triennial election to the Senate, which took place in December, proves that this institution has now become little more than a political waste paper basket in which each party is gently depositing its hangers-on. Not more than eight of the twenty-three newly elected Senators could by any stretch of the imagination be considered as coming within the qualification for membership of the Senate prescribed by the constitution, namely, persons "who have done honour to the nation by reason of useful public service or who because of special qualifications or attainments represent important aspects of the nation's life." Party political service is now apparently the sole qualification for election, and the Senate is little more than a second-hand edition of the Dail. This result is greatly to be regretted, but it was really inevitable when the arrangement by which the Senate is elected, by the Dail and Senate voting together by proportional representation, came into force. The recent election was also remarkable, because one Senator of the Government party canvassed not wisely but too well for a friend, and so upset the nice adjustments of the party machine that a prominent

The Irish Free State

Government candidate, who is also a southern newspaper proprietor, was not elected. The zealous canvasser—who is in fact the Lord Mayor of Dublin—subsequently made the *amende honorable* by resigning his own seat in favour of the defeated journalist, who was thereupon elected without a contest.

II. THE SHANNON MUDDLE AND OTHER MATTERS

THE public mind is quite properly agitated over the recent revelations concerning the management, or rather mismanagement, of the Shannon hydro-electric scheme. The amount of money expended on the scheme to date is £8,509,515, of which £5,745,130 was for development work, and £2,764,385 for the work of the Electricity Supply Board. The original intention was that the money so advanced should be repaid out of revenue and that profits should be applied in reduction of the cost to the consumer. The Board as originally constituted consisted of a chairman, a managing director, and three part-time members representing commercial interests. Last summer the managing director, Dr. T. A. MacLaughlin, who first suggested the scheme, had to resign his position because of differences with the Government on major matters of policy.* One of these matters was the question of the price charged for current. It soon became public that the financial affairs of the Board were in a state of first-class muddle and that a firm of auditors had been called in to overhaul and prepare the accounts, which had not been submitted to the Dail as required by Statute. During November the Board announced an increase in the price of current, varying in accordance with certain conditions from 12½ per cent. to 25 per cent. The reason given for this change is that the prices previously fixed were too low to be economic. This drastic alteration has naturally

* See THE ROUND TABLE, No. 84, September 1931, p. 865.

The Shannon Muddle and Other Matters

led to some very strong public criticism. Since the increase was announced, the annual reports and accounts of the Board for the year 1929-30, and the comments of the auditors thereon, have been published and have increased the public uneasiness concerning the whole matter. It is clear that the system of accountancy adopted by the Board at the commencement of its activities was most unsatisfactory, and though there is no suggestion of dishonesty, there is overwhelming evidence of inefficient control. Some of the accounts seem to have been in a hopeless condition; dockets and vouchers were inaccurate and often lost or mislaid. It must, of course, be said that during this period the Board was engaged in intense activities. Dublin, Limerick, and 98 other towns were linked to the system during the year; the electricity undertakings of 15 local authorities and 16 private concerns were acquired and the Dublin tramway load was secured. The number of consumers was increased by over 50 per cent. The deficit for the year amounted to £38,199. The figures, as such, throw virtually no light on the economics of the scheme. They have no bearing on the all-important question of the price charged to the consumer, and are valuable only in so far as they provide partial information with regard to the scheme's financial development. The vital year will be the present one, when the whole concern will approach normal running conditions, and it is to be hoped that the accounts for the period will be forthcoming without undue delay. The commercial members of the Board, one of whom is a trained accountant, cannot escape their share of blame for the muddle, and it is remarkable that they have retained their seats on the Board in spite of the declaration of Mr. McGilligan, the Minister for Industry and Commerce, that he was prepared to accept their resignations. The Board has now at last engaged the services of an experienced accountant from the electrical industry, who will no doubt prevent a recurrence of the confusion and let us know clearly how matters

The Irish Free State

stand. Meanwhile, the public is naturally beginning to ask whether the whole Shannon scheme is not a white elephant. Last summer the Dublin steam power station had to be operated in order to supplement the available water power, and, as the load increases, it is obvious that both the Cork and Dublin power stations will have to be used, because it is extremely doubtful if the Shannon water power can be developed any further on an economic basis. It was urged that the Shannon scheme would materially reduce the imports of coal into the Free State. Ireland normally imports 4,500,000 tons of coal per annum, but steam stations giving the full output of the Shannon scheme would require less than 100,000 tons per annum, or only $2\frac{1}{2}$ per cent. of the total imports. In fact the actual saving is nil, because the imports of coal have increased since the Shannon scheme started, and will probably continue to do so. It is apparently a fact that at the present prices of fuel, freights, and electrical machinery, an alternative scheme on a steam station basis could be provided, feeding a network over the whole of the Free State with current in a far cheaper and more reliable manner than the Shannon scheme can do at the prices now being charged for current. The country as a whole is paying more for its electricity than it would have paid if there had never been a Shannon scheme; it is paying very considerably more than it would have paid if even a small part of the money spent on Shannon hydro power development had been spent on an alternative system of supply. It is to be hoped that this situation will not be permanent. If it is, this generation will gain no advantage from the capital expended on the scheme and will probably want to know why it was ever undertaken.

A more satisfactory electrical development is likely to result from the Drumm battery train,* which had an official

* See THE ROUND TABLE, No. 76, September 1929, p. 834; No. 81, December 1930, p. 160; and No. 82, March 1931, p. 413.

The Shannon Muddle and Other Matters

trial early in December, on which occasion Mr. Cosgrave and a distinguished party, including several other members of the Government, travelled from Westland Row to Bray and back. The fifteen-mile journey was made in 24 minutes, and a speed of 45 miles an hour was reached. Adjustments of the motor can raise the speed to 60 miles an hour. The train consists of two coaches for suburban traffic, and the charging apparatus at the two termini is so arranged that, as soon as the train stops, charging automatically begins and automatically ceases when a sufficient charge has been delivered. The company which controls the patents claims to be satisfied on the question of the battery's life, lightness, space, cost and durability under service conditions. If it survives the present tests under ordinary conditions of train service, then our railways will be able to avail themselves of electrification without having to incur the heavy initial expenditure which the installation of an overhead cable or a third rail equipment would necessitate. Apart from other advantages, this would mean an appreciable reduction in operating expenses, particularly on branch lines where the competition with road transport is most felt.

The Government have now introduced their two long-promised Bills to deal with the whole transport problem.* The Road Transport Bill gives the Minister for Commerce control over road transport. It provides that every passenger vehicle must be licensed by the Minister for Industry and Commerce and must work under the Ministry's conditions. Inefficient services may be terminated and licences refused to new applicants. Furthermore, an attempt to produce order out of the present chaos will be made by the establishment of traffic zones. The Railways Bill will allow the Great Southern Railway Company, with the Minister's sanction, to modify or suspend services on small or unprofitable lines, to extend its own road services without the present restrictions and costs, and to make

* See THE ROUND TABLE, No. 83, June 1931, p. 631.

The Irish Free State

working arrangements with other road services. These provisions will enable the railway to meet its competitors on something like level terms. The operation of the two Bills ought to secure for the public an improved and more economic system of road transport without any increase of costs. The solution of the transport problem, difficult elsewhere, is in the Free State complicated by many special features. Physical and economic conditions are alike unfavourable to the proper development of transport facilities unless tremendous care is exercised to prevent the unnecessary duplication which has been proceeding unchecked for the last ten years. The small size of the country and its deeply-indented coast line provide no scope for the long haul which is the most remunerative form of railroad transport, and the fact that the country is predominantly agricultural and pastoral, and sparsely populated, with its chief centres of population on the coast, where its principal industries are also situated, deprives the railroads of heavy traffic. It is not therefore surprising to find that the 'bus passenger traffic in 1929 exceeded that on the Great Southern Railway. The dividends of that company have now almost reached the vanishing point. Last year its net income dropped to £825,058, the dividend of one per cent. on the ordinary stock was not earned, and in the present year the directors have postponed consideration of the payment of a preference dividend until the final accounts are available. It is obvious that when the new Bill becomes law many of the smaller lines will be closed. But more than this is necessary. The problem of wages, still paid on an extravagant scale, will have to be tackled, and the whole method of a system accustomed to years of monopoly drastically altered to suit public needs and convenience.

Another important problem—probably the most important problem of all—is that of the Housing Bill which the Government introduced in November.* Its gravity is

* See THE ROUND TABLE, No. 77, December 1929, p. 136, *et seq.*, and No. 85, December 1931, p. 152.

The Shannon Muddle and Other Matters

proved by the awful fact that there are in Dublin alone 65,000 single room tenements, that 3,370 of those rooms house four persons, and 1,070 of them seven persons. It is calculated that it will take ten years and cost £7,000,000 to remedy this situation. The new Bill is designed mainly to provide for the clearance of these insanitary areas. It does not cut off assistance for the re-housing of the ordinary better-paid working classes but its object is to produce conditions in which they will not have to rely solely on local authorities or on subsidies for the provision of houses. When introducing the Bill, Mr. Richard Mulcahy, the Minister for Local Government, pointed out that since 1922 the Government had provided for the building of 24,566 houses, that State grants amounting to £2,550,000 have been made available, £6,000,000 approximately has been provided by private enterprise, and £2,500,000 by local authorities, making a total of approximately £11,000,000. The efforts of the Local Government Department had also reduced the cost of building from 15s. per square foot in 1922 to 9s. 4d. per square foot in 1930. Apart from the provision of houses, the Bill will give local authorities power to make a complete clearance of unhealthy or dangerous buildings, to improve areas in which total demolition is not warranted, and to acquire derelict sites. It has recently been suggested that the proceeds of the sweepstakes might well now be diverted from the hospitals to the assistance of housing finance. Such a step has much to recommend it, for the hospitals are now beginning to suffer from an embarrassment of riches, and if the slums were eliminated we should be striking at the roots of our physical and moral ills, and proving once more that prevention is better than cure.

The Irish Free State.

February 1932.

CANADA : THE RAILWAY PROBLEM

I. THE ROYAL COMMISSION

THE recent appointment of a Royal Commission to investigate and report on the railway situation in Canada has brought to the fore the whole question of the financial and operating condition of the two great systems and the several minor ones. Accumulated difficulties have been accentuated by the existing economic depression. More than once in the not distant past the peculiar problems of the Canadian railways have demanded careful examination. Some radical changes were made; some lessons were apparently learnt. But still there are fundamental problems remaining to be solved, while some of the lessons taught by the pressure of heavy losses were later forgotten in the days of prosperity.

The Commission was appointed by an Order-in-Council of November 20, 1931, on the advice of the Select Standing Committee on Railways and Canals of the House of Commons, which in turn followed a suggestion made by Sir Henry Thornton, president of the Canadian National Railways, in his evidence before that Committee.

There are seven members of the Commission, of whom five are drawn from different parts of Canada, representing both expert and non-expert opinion, and two are outside advisers. The members are the Rt. Honble. L. P. Duff, Judge of the Supreme Court of Canada (chairman); Lord

The Royal Commission

Ashfield, chairman of the London Underground Railway ; Mr. L. F. Loree, president of the Delaware and Hudson Railway ; Sir Joseph Flavelle, of Toronto, the distinguished financier and chairman of the new board of directors of the Grand Trunk Railway that was appointed in 1921 ; Mr. Beaudry Leman, general manager of the Banque Canadienne Nationale and a former president of the Canadian Bankers' Association ; Dr. Walter Murray, president of the University of Saskatchewan ; and Dr. Clarence Webster, one of the leading public men of New Brunswick.

The terms of reference give ample latitude to the Commission and indicate that, although their primary concern is with railways, the Commissioners must bear in mind the close relation between rail and other forms of transportation. The terms read as follows :—

That the Commissioners inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future development of the country, and report their conclusions and make such recommendations as they think proper.

At the first meeting of the Commission, held on December 4, 1931, in Ottawa, statements were made by the Minister of Railways and the presidents of the Canadian Pacific Railway and the Canadian National Railways. The Commission then made a tour of the West, after which they returned to Ottawa and heard evidence from officials of the railways. They then visited the maritime provinces, and later the central provinces. On the long journeys to and from the West the commissioners were accompanied by the chief operating, technical and accounting officers of both railways, with whom they were in almost constant conference.

It is probable that the report of the Commission will be presented early in the spring. The fact that some of the

Canada : The Railway Problem

sessions have been conducted behind closed doors has caused some criticism, but wherever the Commission went ample opportunity was given to anyone who wished to convey his views to do so in public or private hearings. There are, moreover, obvious disadvantages in premature publicity.

II. THE HISTORY OF THE RAILWAYS

FROM the earliest days of settlement in Canada, transportation has been one of the vital problems. Since most of the first settlements were made on the many rivers and lakes, water was almost exclusively used for communication: indeed, it was because of this readily available mode of transport that settlements were thus placed. Roads were early cut through the forests, but they long remained crude in the extreme and were only used as supplementary to the water system. In the first decades of the nineteenth century the main hope of opening the country for colonisation and commerce seemed to lie in rendering the rivers and lakes practicable for through communication by building canals around the rapids, and thus obviating the need of arduous "portaging."

The first railways in Canada followed the same line of development, being intended as no more than portages around the principal rapids—such as those on the Richelieu and Niagara Rivers. These short railways, while involving a transshipment, could be built more cheaply than canals. The first railway of this type was completed in 1836 and was followed by similar ventures, but by 1850 there were only 66 miles of rail in operation in Canada. After that year progress became rapid, and railways were built as complete routes, instead of being supplementary to waterways. Railways became one of the chief interests of speculators, and groups of financiers vied with each other to secure charters. In the 'fifties the remarkable total of 2,000 miles was added to the mileage in operation, being largely owned

The History of the Railways

by the Great Western (from Toronto to Windsor and Lake Michigan) and the Grand Trunk (from Portland, Maine and Rivière du Loup to Sarnia and Detroit) together with a number of smaller companies in both the Province of Canada and the maritime provinces.

The formation of the Dominion of Canada in 1867 by the federation of the provinces of Canada (Ontario and Quebec), Nova Scotia and New Brunswick introduced a new element into the development of railways. On the one hand the union of wealth and government promised to render feasible the large railway projects that all the provinces favoured ; while on the other hand it was clearly necessary to establish such improved communications as would make the union a reality. This too applied not only to the members of the original federation, but also to those additional provinces the inclusion of which was contemplated from the first. In general the situation called for lines stretching east to the Atlantic and west to the Pacific. The first was part of the original agreement. The Dominion Government was to take over some 350 miles of rail in New Brunswick and Nova Scotia and build a through line to connect the maritime provinces with those of central Canada. This line was completed by 1880 from Halifax and St. John to Quebec, and included not only the maritime mileage mentioned above but also the former Grand Trunk line from Rivière du Loup to Quebec.

The western arm of this great stretch was also made imperative by political considerations. As has been mentioned, it was hoped that the original federation would soon be enlarged so as to take in the vast area to the west of Lake Superior as far as the Pacific coast. The prairie section of this was simply the preserve of the Hudson's Bay Company, but the part west of the Rocky Mountains was an organised colony. In order to induce British Columbia to join the Dominion as a province it was agreed in 1870, amongst other things, that a railway to British Columbia should be begun within two years and completed

Canada : The Railway Problem

within ten. This promise, which may well be regarded as courageous now, was widely regarded as mad then. Apart from a population of some 36,000 in British Columbia there were little more than fur-trading posts in the territory over which the railway was to be built. Traffic of any paying quantity must therefore come from rapid immigration, and it was questioned whether there would be any large movement into what was widely thought of as an inhospitable land. The answer to these doubts was the force of political necessity, eked out with faith and hope. The shortest routes to both east and west were through the United States, but it was strongly felt that there must be communication from one part of Canada to another through her own territory. To some extent this meant a defiance of geography, for railways had to be built for thousands of miles along a narrow strip of Canadian soil, instead of making comparatively easy connections with the American lines. Such connections would have meant not only enormous savings in construction and upkeep, but also obvious advantages for commerce. Rather, however, than accept the political implications of this dependence on another country, the Canadian Parliament was prepared to face the expense of forcing into east and west channels a traffic that would have otherwise tended to flow north and south.

The early efforts to carry out the agreement to build a Pacific railway met with small success, and little was done before 1880 beyond the construction by the Dominion Government of some links in a chain that was to make use of waterways and existing railways. In 1880, however, an agreement was reached with a group of experienced railway men to build the line from Montreal to the Pacific coast in British Columbia within ten years. This group later became the leaders of the Canadian Pacific Railway. Being given the 710 miles of road under construction by the Government, they would be required to build some 1,900 miles. The company was presented with \$25,000,000,

The History of the Railways

25,000,000 acres of land, exemption from duty on construction materials, exemption for twenty years from taxes on land, and other privileges. Construction was pushed ahead with great energy, and by the beginning of 1886 the first trains were running.

The completion of the first transcontinental line marks a milestone in Canadian history, as well as in the development of Canadian railways. The optimism of its supporters seemed to be justified when the Canadian Pacific Railway soon transported thousands of settlers to take up land on the rich soil of the western prairie. British Columbia had been saved for the Dominion, and the whole west was becoming Canadian in reality as well as in name. This first flood of settlers to the great western area led also to a belief that the population of Canada would continue to grow at the same speed, and that the Canadian west would develop in the same way and to almost the same extent as the west of the United States had done.

The first fifteen years of this century saw the planning and completion of two additional transcontinental lines. The Grand Trunk, which had long been operating successfully in central Canada, was anxious to share in the profits arising from the development of the west, and from the advantages to be derived from long hauls. The company, therefore, proposed to the Dominion Government that it should build a line from Chicago, its western terminus, via Minneapolis to Winnipeg and thence to the Pacific coast. This was rejected on the ground that too much of the proposed line would be in the United States. The company then offered to build east from Winnipeg to North Bay (in northern Ontario). Finally, in 1903, the Government induced the company to build a Grand Trunk Pacific Railway from Prince Rupert on the Pacific to Winnipeg; the Government, for its part, to build the National Transcontinental from Winnipeg to Moncton (New Brunswick), thus providing a second transcontinental line in Canadian territory. The Government would then rent

Canada : The Railway Problem

the National Transcontinental to the company for fifty years, for the first seven of which no rent would be paid, and for the remainder of which 3 per cent. of the cost would be paid as rent. The Government would further guarantee the interest on the bonds of the Grand Trunk Pacific up to 75 per cent. of the cost of construction. The company accepted, though with some reluctance, and construction was completed before the war. The cost of construction of both divisions of this line was high.

The third transcontinental line, the Canadian Northern, grew out of the enterprise of two able and resourceful railway builders, Sir William Mackenzie and Sir Donald Mann, who, beginning with the purchase of the 125-mile Lake Manitoba Railway in 1889, gradually added to this by further purchase or construction until an integrated system extended from Vancouver to Montreal. Unlike the Grand Trunk Pacific and National Transcontinental (the two sections of the one transcontinental line) the Canadian Northern was built at low cost, with, of course, the expectation of gradual improvement. While getting the usual help from Governments, the method of financing the Canadian Northern was otherwise unusual. Provincial guarantees—then Dominion guarantees and subsidies—were secured. When the company became better known large amounts were raised by the issue on its own credit of so-called perpetual debenture stock. No money was raised by the sale of common stock, which was issued to the promoters and gave them control.

These two later lines to the Pacific were, therefore, built independently and in the expectation of competition. In 1902 and 1903 negotiations were conducted with the object of securing the completion of a single joint transcontinental line, on the general plan that the Canadian Northern should build in the west and the Grand Trunk in the east. No agreement was reached, however, and the two complete lines were begun. This decision was more responsible than any other one factor for the later grave problems.

The History of the Railways

There was, of course, need for more construction in the west after the completion of the Canadian Pacific. To a limited extent, moreover, construction had to run ahead of settlement, of which it was a necessary condition. But unfortunately optimism rather than wisdom was the guiding force, and the Government adopted the policy of encouraging the two new transcontinental lines. Since the construction of railways in Canada has always been subsidised, in one way or another, by provincial and federal Governments, the policies of private railway corporations have directly affected not only their shareholders but the taxpayers. Given wise direction, it has been to the advantage of the people as a whole to finance the construction of a satisfactory railway system ; but in the period in question the point was reached and passed when the returns to the people in railway services equalled their financial commitments. In an open letter to the Prime Minister, Sir Joseph Flavelle, then (1921) chairman of the board of directors of the Grand Trunk, wrote as follows regarding the situation which he and his colleagues had shortly before been called upon to face :

There would be no acute railway problem in Canada to-day if, in 1903, Parliament had refused the proposal to build the National Transcontinental line from Winnipeg to Moncton ; if it had refused to grant a charter to the Grand Trunk Pacific to construct a railway from Winnipeg to the Pacific coast, and had refused the builders of the Canadian Northern further financial assistance, except as the Western Division of the Grand Trunk system, carried through to the Pacific coast. If the Grand Trunk and Canadian Northern Companies had been told they must come together and constitute a second transcontinental line the country would not have been called upon to face the present gravely serious situation, while a powerful corporation, with a serviceable railway from ocean to ocean, owned and operated by private capital would, with the Intercolonial and Canadian Pacific Railways, have given the needed transportation facilities for the present, and reasonable future requirements of Canada.

By 1915 the total mileage in operation in Canada had risen to 34,882. This equipment, which assumed a steady

Canada : The Railway Problem

increase of population and commerce, proved to be of embarrassing magnitude when the financial stringency of 1913 was followed by the war of 1914. Although the economic conditions of 1913 led to unemployment and difficult months for business, it was the war which suddenly and unexpectedly shut off the supply of immigrants to Canada. The total number of arrivals in 1913 was the highest ever reached, 402,432 ; in 1914 it was 384,878 ; in 1915, 144,789 ; and in 1916 sank to 48,537. Such a check to the growth of the country could hardly have been foreseen. The loss of immigrants meant a blow to the railways in the west, from the loss not only of revenue in original transportation, but also of the continued business which they would have brought. Since the war, owing in part no doubt to the advance of social legislation in European countries and in part to the new Canadian policy of restricting immigration, the numbers of immigrants have never risen to half of the 1913 figures.

III. THE CANADIAN NATIONAL SYSTEM

THE war caught the railways in the process of completing a policy of expansion and greatly aggravated existing sources of danger. As has been indicated, all the Canadian railways represented public investment in some form. The Canadian Pacific had by this time long since ceased to be a drain on the public purse, though this was partly accounted for by the empire that it had gained in its original grant. The railway was, however, more than paying its way. The Grand Trunk proper was suffering from two difficulties—absentee directors and its guarantee of, and cash advances to, the Grand Trunk Pacific. The management had been greatly improved under a former American railway manager, Mr. C. M. Hays (who was lost in the *Titanic*), but the final control was in England, where most of the stock was held. Wisely or no, the

The Canadian National System

Grand Trunk Pacific had been constructed in permanent form, which was intended to make for low operating costs, but the investment proved to be too high for the available traffic. The Canadian Northern Railway was still incomplete at the outbreak of war, and was moreover faced with unexpectedly expensive construction in the Rockies. These two later transcontinentals, as not a few observers (including Laurier's Minister of Railways) had foreseen, were cutting each other's throats.

To keep the weaker railways going the various Governments had poured out money in the form of direct subsidies, made land grants and guaranteed bonds. Only from an operating point of view could most of the Canadian railways be regarded as private companies. But the Governments had thus heavily invested because railways were essential to national development and private capitalists were not willing to take the entire burden of establishing and operating railways under comparatively pioneer conditions. When the war brought an acute crisis to the Canadian Northern and Grand Trunk Pacific, however, the Canadian Parliament began to consider whether it would not be better to take over the management as well as the financial responsibility of those roads which were in distress. The rise in wages and materials, the almost entire cessation of immigration, and the fact that foreign investors were concerned with their own problems made the war years serious for the Canadian railways, already suffering from the effects of over-optimism.

The Canadian Government had for some years been the direct owner of railways, the Intercolonial of 1,592 miles, the National Transcontinental of 2,003 miles and the Prince Edward Island railway of 279 miles, making up no mean total. In 1916 a Royal Commission was appointed to report on the whole problem of transportation—the status of the three transcontinentals, the reorganisation of any of the systems, including their possible acquisition by the State, and any other matters that seemed relevant.

Canada : The Railway Problem

The Commission consisted of Sir Henry Drayton, chairman of the Board of Railway Commissioners, Mr. W. M. Acworth, an English authority on railways, and Mr. A. H. Smith, of the New York Central Railway. A majority report was presented by the first two which was of great significance in the history of Canadian railways.

In their report the Commission found that the Canadian Pacific Railway was the only one able to meet its obligations to the public, and that this success was due partly to able management and partly to generous aid at its inception. On the other hand they found both the Grand Trunk and the Grand Trunk Pacific to be bankrupt. Whereas the former had paid out 36 million dollars in dividends in eleven years it was unable to put its lines and rolling stock into proper condition. By a majority recommendation the Commission advised that the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern, the Intercolonial and the National Transcontinental be owned by the Government and operated by a board of trustees constituted by Act of Parliament and incorporated as the "Dominion Railway Company."

These recommendations were in general followed. The Canadian Pacific was left as a private company. Following an Act of Parliament, the Canadian Northern was acquired on October 1, 1917, by the payment of ten million dollars for the capital stock. In March, 1919, the Minister of Railways was appointed as receiver of the insolvent Grand Trunk Pacific, and shortly afterwards the road was taken over by the Government. The Grand Trunk was acquired in 1919 by an Act of Parliament, which provided for the appointment of a board of arbitration to determine the value of the capital stock of the company, with the exception of the 4 per cent. guaranteed stock. The board as appointed consisted of Sir Walter Cassels (chairman), Sir Thomas White for the Government, and Mr. W. H. Taft for the company. A majority report was signed on September 7, 1921, by the two first-mentioned members, who found no

The Canadian National System

value in the first, second and third preference stock or in the common stock of the Grand Trunk. The arbitrators commented, as had the members of the 1916 Commission, on the fact that dividends had been paid when the other obligations of the company made such a course unjustifiable. Sir Thomas White's conclusions may be quoted :

(1) The actual earning power of the Grand Trunk Railway Company of Canada, before, during, and since the war, and, so far as can be estimated, for the future, does not justify the assumption that any profits would, from the date of the acquisition by the Government of the preference and common shares, viz., May, 1920, ever have been available for distribution to the holders thereof, after providing for the contingent liability of the company in respect of Grand Trunk Pacific securities guaranteed by the company and dividends upon the "guaranteed stock."

(2) Having regard to its own continuing heavy deficits, the necessity for making provision for deferred and extraordinary maintenance and capital construction, and its heavy liabilities in respect of securities of the Grand Trunk Pacific Railway Company bearing its guarantee, the Grand Trunk Railway Company of Canada, but for the financial support of the Government since May, 1920, must have been forced into a receivership.

Upon these conclusions I find that the preference and common stock of the Grand Trunk Railway Company of Canada has no value.

In these circumstances the Government saw no reason for taking any action, whether or not it would have been good policy to do so, in the way of making a "compassionate allowance," which the majority arbitrators had intimated was a question for the Government and not the board to decide. It was apparently felt by the Government that for a number of years the company had continued to pay large sums in dividends to the shareholders regardless of the needs of the property and of the company's obligations to the Government. In respect of the three railways acquired, the obligations assumed by the Government amounted to about 936 million dollars. By January, 1923, when the Grand Trunk, the Canadian Northern and the Grand Trunk Pacific were incorporated in the Canadian National Railways, the direct cost to the Government had risen to about

Canada : The Railway Problem

1,321 million dollars ; or, in other words, the Government had in the interval spent some 395 million dollars in improvements, extensions and the acquisition of additional mileage.

From 1923 onwards there have been two great Canadian railways—the Canadian National and the Canadian Pacific, with the former operating a somewhat greater mileage. In the years of prosperity before 1930 both companies added to their property in mileage, equipment and such contributory enterprises as hotels and steamships. The Canadian Pacific continued to pay handsomely, its operating profit being \$51,694,000 in 1928. The Canadian National, too, under its new and active management, was able to show an operating profit of \$49,558,000 in 1928, although its total capitalisation of \$2,074,585,000 made impossible an otherwise satisfactory balance sheet. In addition to its already large mileage, the Canadian National has become responsible for the operation of a line built by the Government, the Hudson Bay Railway, which has recently been opened to the port of Churchill. This line is intended primarily for the movement of grain, and large elevators have for that purpose been built at Churchill.

The economic depression of 1930, therefore, found both the Canadian National and the Canadian Pacific in process of completing large commitments, and in vigorous competition. The loss of revenue, which became increasingly serious, has gradually forced an economy of services and in some cases co-operation in place of competition. Both railways have made reductions in salaries and wages of 10 per cent. In June, 1931, the Canadian Pacific was obliged to halve its dividend in deference to a fall in profits of five million dollars between 1929 and 1930.

The Canadian National, less able from the nature of its composition and capitalisation to withstand the loss, showed a decline in net operating revenue from some 40½ millions in 1929 to 16½ millions in 1930. It is generally felt that both railways are in such a condition that serious

The Basic Problems

public consideration must be given to their future. Railway crises have more than once in the past been faced in Canada, and there is reason to believe that a general improvement in economic conditions would offer a large measure of relief. On the other hand, the pressure of present conditions has brought to the fore a desire to examine the problem of railways and transportation as a whole in Canada; and it may well be that lessons will now be learnt that will serve for good and bad times in the future.

IV. THE BASIC PROBLEMS

THE main strategic problem of transportation in Canada is a geographical one. The territory is not only vast in proportion to the population, but the bulk of that population is stretched along a comparatively narrow line of settlement in the southern parts of the Dominion. By their determination to provide a system of railways that would serve their needs without dependence on the United States, the Canadian people have set for themselves a fine national aim but a permanent economic difficulty. Great parts of the railways have been thrown across areas which at the time of construction produced little local revenue; and while in many of these the situation has improved by immigration and by local industrial and mining development, there still remain sections in which there is no immediate prospect of considerable settlement. An examination of railway and population maps of Canada and the United States will quickly reveal the peculiar Canadian problem. As has been shown before, for example, the Grand Trunk wished to build a transcontinental line that would follow the easy route south of Lake Michigan, but this was unacceptable to Parliament because it was not a Canadian route. Instead of this, all the transcontinentals were built to the north of Lake Superior, where construction was very expensive, and where there was little prospect of local revenue.

Canada : The Railway Problem

Thus a Canadian system of railways presupposes a large machine for a small population. The total steam mileage in operation in Canada is 42,000, while the population is approximately ten million. The population per mile of railway in Canada is only 235, while in Great Britain it is 1,800, in France 1,235, in Germany 1,770, in the United States 480, and in Australia 220.

Given the problems arising from these general conditions, has wisdom been shown in the creation of the Canadian railway system as a whole? Have we built to a greater extent than was wise or necessary? Has the construction been economical and suited to the conditions for which the lines were required? There can be little doubt that there has been overbuilding, dating from the fatal decision early in the century to add two more trans-continents to the existing Canadian Pacific. As has been shown, efforts were made in 1902 and 1903 to prevent this but without avail. Both the Canadian Northern and the Grand Trunk have been defended against the charge of unwise expansion by the argument that each would have succeeded without the other; but this is, of course, merely to say that their decisions to build separately after their failure to agree in the first place led to damaging competition. Nor can the Government of the day escape blame, for had they followed the advice of their more far-seeing members they would have refused the franchises and the subsidies without which the roads could not have been built. But it is easy to be wise after the event, whereas in the period in which these enterprises were started many prominent Canadians thought that the future of the west would be one of continued and rapid growth and that the three lines were essential to its development.

In some cases lines have been abandoned where traffic has not warranted all that were built; yet the capital expenditure remains, and this is particularly one of the problems of the Canadian National, since the Canadian

The Issues To-day

Pacific was able to plan a unified system. The cost of construction has varied considerably. Some of the lines were built in the belief that a high first cost made for low maintenance. Whether this be a sound principle or not, it has happened that one of the most striking examples of this—the National Transcontinental—is now one of the least used of the main lines. Could the Canadian railways be built again, there would no doubt be many changes, but since we must accept the legacy of the past as we find it, the present problem is to determine what are the measures best calculated to correct the mistakes of the past and ensure a more satisfactory future.

V. THE ISSUES TO-DAY

THERE is inevitably much speculation as to the recommendations to be made by the Royal Commission. Without our entering on the dangerous field of prophecy certain of the issues may be examined.

At present private and State ownership exist in almost equal extent. It has been pointed out that operating costs would be appreciably reduced if the two great railways were in some way merged so as to avoid the waste involved in severe competition for a limited amount of business. Anything in the nature of amalgamation, however, would meet with wide disapproval, especially in the west and Ontario. The removal of competition would have obvious disadvantages for the customers of the railways; but an almost greater problem arises from the fact that either public or private ownership would have to be abandoned. Both of these, however, have considerable support, and any Government that felt it necessary to sponsor amalgamation would have to answer to an angry electorate in many districts. To turn over the whole railway system to private ownership would apparently mean in some form to give the Canadian Pacific a monopoly; and proud as Canadians are of this great corporation,

Canada : The Railway Problem

few of them wish to see it—or any other company—in such a position of power. On the other hand, and in spite of the real achievements of the Canadian National in the face of almost overwhelming difficulties, there must be great doubt as to whether the public would be adequately served by a public company which had no competitor to keep it at its best. Moreover, there must always be anxiety as to whether such a company could be kept free from political influence with all its unsatisfactory commitments.

If amalgamation seems unlikely, there remains the question of co-operation. In places the two companies carry on a competition that is unfruitful to both and, apparently, economically unsound. Although it seems logical that they should divide the country into "spheres of influence," and each do a profitable business within its own territory, this is not easy to arrange in detail. Many of the small competing lines are feeders for the main lines, and essential to their life. Further, the most profitable business that the railways do is in long freight hauls. This is best explained by a further quotation from the letter of Sir Joseph Flavelle to the Prime Minister in 1921 :

For purposes of comparison . . . the Grand Trunk system affords an opportunity to estimate the effect of short-haul traffic, which is noticeable in that system, as compared to long-haul traffic characteristic of the Canadian Pacific Railway. The Grand Trunk Railway system, operating 4,775 miles of road, during the year 1920 moved 33,026,658 actual net tons, and were paid for the service \$80,686,623.00. The Canadian Pacific, operating 13,402 miles, moved 29,919,645 tons, for which they were paid \$143,878,185.00. You will observe that the Grand Trunk, moving 3,100,000 tons more freight than the Canadian Pacific, received in payment \$63,191,562.00 less for their services than that company. The greatest single factor in this remarkable difference is, that while the Canadian Pacific carried each ton an average of 463 miles, the Grand Trunk carried each ton an average of 212 miles. Or, stated in another way, the Canadian Pacific received \$4.81 for each ton, while the Grand Trunk received \$2.44 for each ton. The costs at terminals to collect and distribute, including switching, are as much per ton whether the freight is short hauled or long hauled.

The Issues To-day

Since the creation of the Canadian National, that company has been enabled to take its share of the profitable long hauls; and it seems almost inevitable that some measure of apparent duplication must remain if both companies are to continue to do this part of the business. In some places, however, duplication has already been abolished by agreement; and it may well be that the Commission will recommend that this process should be carried further. One complication in this respect remains: the inevitable complaint that one or other of the companies is being sacrificed to the other. Any argument of this nature is particularly likely to develop from the fact that there is an unfortunate tendency for people to take sides as supporters of public or private ownership.

Another possible approach to the problem of reducing expenditure is to advise the lessening of expenditure within each railway. This would come under such heads as curtailment of luxury equipment (which has reached a high level on many of the principal trains), cessation of building both of new lines and of hotels and summer camps. Perhaps, too, it might involve the scrapping of minor (and even some major) lines which do not, and apparently cannot, pay their way. There is no doubt that the Canadian public is provided with luxury in travel that can with difficulty be reconciled with the economic obstacles against which the railways have to strive. Our rates are low, our standard of equipment is high, and the actual cost of maintaining the services is high. Assuming that the public would be unfavourable to any material increase in rates, can we maintain this expensive paradox?

There is evident need for the railway problem to be studied as a whole, and it is possible that the Commission may propose some machinery for this purpose. Even a purely advisory body might be of great value if it were composed of able men who could see the problem in terms of the country as a whole, and make recommendations to the still independent companies.

Canada : The Railway Problem

Judging from their terms of reference it may be assumed that the Commission will to some extent consider the railway problem as inseparable from the problem of transportation as a whole. There are three main forms of transportation at the present time that compete in some degree. The canals, hope of the 'thirties, have received a new lease of life in the project for the complete canalisation of the St. Lawrence waterway. Already the canals enable boats of 14 ft. draught to proceed from Montreal to the head of Lake Superior. Apart altogether from the St. Lawrence scheme, the total cost of canals up to the end of March, 1929, was \$216,585,487—a very considerable total. If the St. Lawrence scheme should be carried through it would to some extent constitute an alternative route to the sea competitive with those of the railways. And such outlets have already been increased by the completion of the Hudson Bay Railway, which revived the old route long used by the Hudson's Bay Company. Roads have also come back into prominence as a means of through travel. The motor car and the motor truck have made heavy inroads into the passenger and freight traffic of the railways. Very considerable sums have been spent on roads by the provinces and smaller government bodies, and it is an open question whether the comparatively low taxes on motor vehicles do not make for an unfair competition with the steam railways. Local traffic has suffered particularly, but there seems to be an increasing tendency, generally, for both passengers and freight to "travel on rubber." Some railways in the United States have met this menace by themselves operating motor trucks in conjunction with their train services, but the possibilities of this have not yet been fully explored.

The fundamental problem is to transport a limited number of people and a limited volume of freight in the most satisfactory and economical way. But we are not starting *de novo*. The railways exist, and their expense of building cannot be reduced by taking thought. If road

The Issues To-day

travel is cheaper, what will happen to the railways? Even in prosperous times one might pause to consider whether the present transportation system can stand the additional competition of a Hudson Bay route and the partial competition of a St. Lawrence waterway without the addition of considerably more business. The problem of transportation has always bulked large in Canada, but for the most part the problem has been to secure enough transportation. It seems that we have now got into an era of too much transportation—not too much, of course, for the business and pleasure interests of the people, but too much for the country to afford. Under the peculiar conditions prevailing in Canada it may be argued that to subsidise our transportation facilities is worth the price, but this is a dangerous avenue of thought unless it be followed with the greatest caution. There are already enormous sums sunk in railways, roads and canals. There is sometimes a danger that transportation may be regarded as an end instead of a means.

Apart from such over-building as may exist, and such unnecessary expense as may have been incurred, the causes of our present discontent may be examined under three main heads.

(1) The falling off of traffic consequent on the economic depression. This general problem has affected other railways than ours; for example, the railways of the United States are in many cases in financial difficulties. In 1928 the Canadian National had gross earnings of \$304,000,000, but in 1930 this figure was cut to \$250,000,000. The Canadian Pacific also suffered a heavy loss of revenue. The general slump in business readily accounts for the lack of traffic, but the marked reduction in the movement of grain has been a particularly serious factor. Clearly the effect of the depression on the railways is a problem beyond their control. The same cause is responsible for the loss of revenue in businesses of almost every character.

(2) Competition between the railways is, to some extent,

Canada : The Railway Problem

a cause of loss of revenue that is within control. But, as has been seen, this can only be modified within limits. If, as is widely thought, a degree of competition is to the advantage of the customers of the railways, there must be some compromise. We cannot in this respect both eat our cake and have it.

(3) Finally, the competition between railways and motor vehicles is a serious problem. There are in Canada approximately 1,239,000 motor vehicles, of which 166,000 are motor trucks. This is a total only materially exceeded by the United States with 26,500,000. The motor car is no longer a luxury but a normal mode of travel, since in Canada there is an average of one car for eight persons. Motor buses, too, have secured a considerable business ; in some places electric railways have been abandoned because of the competition of buses, and in many districts the local traffic of the steam railways has suffered severely. Local train services have been reduced from lack of business, and recently a deputation from a suburban town, who were asking for increased train services, were told that they could not have trains in the winter if they insisted on using their cars in the summer. Everywhere in Canada good through roads have been built, and in the summer one can see endless lines of cars, many of them from distant American States, passing on the main highways. Part of this traffic has arisen only because of the motor car, but a portion of it is at the expense of the railways. Even more serious is the competition of the motor truck, since the carriage of freight is the most profitable part of a railway's activities. One sees trucks loaded with all manner of goods and covering great and small distances.

It has been often suggested that the motor vehicle competes unfairly with the railway, since the expenses of the latter are greater than those of the former. The solution offered is to make the motor vehicles pay for the roads and thus put the competitors on an equal footing. This solicitude, it may be noted, is not so much owing to a

The Issues To-day

greater love of the railways as to the fact that they represent an enormous public investment, which is being endangered. There are, however, several objections to the apparently simple solution of heavier taxation. One is that the public would not like it in practice, however much they might approve of it in theory. Though they might gain indirectly through the improvement of the position of the railways, what they would chiefly notice would be more expensive motor transit without reduced rates on the railways. A second obstacle to change is the fact that much of the motor traffic is to and from the United States. This is particularly true of the tourist trade, and as this stands second amongst our industries, and is invaluable in redressing the balance of trade, it cannot lightly be endangered. But if the American cars which use our roads were not taxed, should the burden fall on the Canadian motorist? Thirdly, the main highways are provincial, while the chief public interest in the railways is federal. This brings us—as most important Canadian problems seem to bring us—to the disputed powers of Dominion and provincial Governments. Could they, or would they, co-operate in balancing the rights of motor and railway transport? The respective control of provincial and federal Governments over the water-power on the rivers used for navigation still seems to be unsettled, and the course of this dispute augurs ill for an easy settlement of the transportation question as a whole.

The personnel of the present Royal Commission assures a careful, detached and able study of the transportation problem in Canada. While it may be assumed that Parliament will give considerable weight to their findings, any action taken will presumably follow a debate in which many and conflicting views will be presented. The interests of various districts and groups are in some respects dissimilar, and if any radical recommendations are made by the Commission they must run the gauntlet of the usual parliamentary criticism. The wide interest that has been shown

Canada : The Railway Problem

in the railway question, however, suggests a general desire to face realistically what is one of our fundamental problems, and, not without pride in past achievements, to attempt a solution of the particular aspect of the problem that comes in our day and generation.

Canada.

January 1932.

AUSTRALIA

I. THE FEDERAL ELECTIONS

IT is notorious that very few parties can survive a term in office during times of economic distress; this is particularly true of a Labour party, or for that matter of any party of reform. While times of depression are times of curtailment and retrenchment, the popularity of a party of reform depends on the measure of its advance towards more or less unattainable objectives, and its normal programmes are based on the expectation of buoyant revenues. Its supporters are not convinced by the most valiant record of orderly retreats, or even of positions barely held. These considerations apply with peculiar force to the Australian Labour party. Its whole theory of representation subordinates the individual to the group—the Minister is subordinate to the caucus, the caucus to the party organisation outside. To get from the party machine the flexibility that government demands in times of crisis is virtually impossible. It is not surprising, therefore, that the onset of the world economic depression should, in Britain and in Australia, have broken the Labour party in office. But few critics could have expected a collapse so sudden or so complete as has occurred in both countries in the last quarter of 1931.

Mr. Scullin's Ministry came into office at the end of 1929, supported by the largest single party in Australian political history, numbering 46 in a House of 75. Owing to internal dissensions within the party, the Ministry failed to keep its supporters together, and in little more than two years was driven to the country by a defeat in the House, inflicted on a deliberate vote. Mr. Scullin will muster no more than 14 supporters when the new House assembles in February, and will thus have lost some 70 per cent. of his

Australia

following. When it is remembered that so recently as 1928 Mr. Scullin was returned as leader of an Opposition of only 31 against Mr. Bruce, some idea will be gained of the changes that have taken place in Australian opinion within three years.

The Labour Government was in trouble from the start. To begin with, it had only one real mandate from the electors—to maintain and improve the federal arbitration system; and a strongly Nationalist Senate was by no means willing to allow the Ministry to rewrite the Arbitration Act at its pleasure. But in truth the Scullin Ministry came into office on a wave of feeling almost entirely unrelated to the real task which lay before it—to take measures to meet the economic depression; and it was on those measures that it eventually came to shipwreck. Every fresh development in ministerial policy served only to split the party more hopelessly. The trouble began with the re-appointment of Mr. Theodore to the Treasurership, on the Prime Minister's return from the Imperial Conference, and before the action arising out of the Mungana charges had come on for hearing. That step cost the Labour party two Ministers, Mr. Lyons and Mr. Fenton, who went into Opposition, the former to become Leader of the Opposition. These two were followed in course of time by three other Labour men. Hard upon these events there followed, in February 1931, the Premiers' Conference at which were put forward the three proposals which have become notorious as the "Lang Plan," and Mr. Theodore's counter-policy, an instalment of controlled inflation. Mr. Lang proposed that no interest should be paid overseas until Britain brought Australian interest rates into line with the Anglo-American war debt settlement; that the interest on public internal loans should be reduced compulsorily to 3 per cent.; and that a currency based on production and governmentally controlled should be substituted for the existing bank-controlled currency. These proposals were summarily rejected by the Premiers,

The Federal Elections

but Mr. Lang characteristically refused to abandon them, and the result was a feud between the New South Wales branch of the Labour party, dominated by Mr. Lang, and the federal Labour authorities, dominated by Mr. Scullin and Mr. Theodore. Mr. Lang's group attempted to coerce the Labour members from New South Wales in the Federal Parliament into supporting his views. Mr. Theodore's group replied by asserting that in defying the properly constituted federal committees Mr. Lang's group had forfeited its right to be considered part of the Australian Labour party. Five of the New South Wales Labour members of the House of Representatives, led by Mr. Beasley, eventually formed a kind of "Lang Cave," hostile to, and contemptuous of, the Government and actually holding the balance of power in the House, but unwilling for some time to strike the Government down at the risk of an appeal to the people. Meantime, finding "controlled inflation" unpopular, the Government had reluctantly agreed to the proposals now familiarly known as the "Premiers' Plan," involving a quasi-voluntary conversion of the Commonwealth and State debts, and a reduction in government salaries, wages, pensions and other adjustable expenditure. The acceptance of the latter part of this plan caused further dissensions in the Labour party, just as a similar issue was to split the British Labour party a little later. The Labour Governments had trouble with their own supporters in their respective Parliaments (there was said to be a majority of two only for the plan in the federal caucus), and the party organisations throughout the country were very hostile, especially in South Australia. A great many of the rank and file were inclined to the view that to accept the plan involved a betrayal of vital Labour principles, and that it was the clear duty of true Labour men to go out of office rather than take responsibility for such a policy.

In these circumstances, it can easily be imagined that the Prime Minister had no desire for an early appeal to the

Australia

country. His position had been greatly weakened in Labour circles, and his record in office had not been such as to retain for him the large body of support from unattached electors which had been accorded him in 1929. His obvious dependence on Mr. Theodore aroused misgivings in many quarters, and so also did his vacillation on monetary policy. These misgivings were intensified towards the end of the year, when it became clear from ministerial pronouncements that, when the election did come, the Government would put forward political control of the currency as the main issue. The time was therefore very unpropitious for the Government when, at the end of November, Mr. Beasley announced his intention of moving for the appointment of a Royal Commission to enquire into allegations that Mr. Theodore was *inter alia* using unemployment relief works in his electorate (at the Commonwealth dockyard at Cockatoo Island and elsewhere) as a means of purchasing votes. It is said that this was a mere pretext—and certainly very little was heard of it during the election campaign—and that the attack was really launched because the Scullin-Theodore group seemed to be making headway in Sydney against the Lang group. The announcement just previously of an amalgamation between the State Savings Bank and the Commonwealth Savings Bank, on terms which would enable the former to make immediate and substantial payments to its depositors, was, for instance, regarded as a triumph for Mr. Theodore. Mr. Beasley pressed his motion, which was duly carried, with the support of the Opposition on November 25, and the Prime Minister advised the Governor-General to dissolve the House of Representatives. In granting the dissolution, Sir Isaac Isaacs took the opportunity of placing on record his understanding of the present constitutional position of a Governor-General in the exercise of the prerogative of dissolution. Formerly it was expected that the Governor-General would exercise his own discretion in the grant of a dissolution, and refuse a

The Federal Elections

request for a dissolution from a Ministry defeated in the House if he thought it in the public interest to do so. In a letter replete with citation of authorities, Sir Isaac Isaacs explained that, in view of the present constitutional position of a Governor-General, as laid down at the Imperial Conference of 1926, he did not feel it his duty to exercise a personal discretion, but contented himself with taking the Prime Minister's advice. Sir Isaac Isaacs added that if he had had to exercise a personal discretion the result would have been the same. But he put it, in effect, that the Governor-General is to stand in the same relation to his Ministers as the King does to his in Great Britain, and that the King would in such circumstances accept ministerial advice. This declaration will probably become a definitive statement of the position of a Governor-General. This sort of thing is one of the by-consequences of appointing a distinguished constitutional lawyer and judge to be His Majesty's representative.

The Government determined on an early election, partly no doubt because it precluded Mr. Lang, and certain other vigorous opponents of the Ministry, from resigning their seats in State Houses in time to contest federal electorates. Polling took place on December 19, a little more than three weeks after the Government's defeat in the House. As usual, an election was held at the same time for the eighteen seats in the Senate (three in each State) whose occupants are due to retire in June, 1932. The Senate, it will be remembered, consists of six members elected from each State voting as a single electorate. Senators hold their seats for six years, and half retire every three years.

The Opposition parties had barely completed arrangements for consolidating their ranks. In order to bring in Mr. Lyons and his ex-Labour followers, and to compose certain other differences, the Nationalist party abandoned its name, and a new party was formed with the clumsy and rather misleading name of "United Australia party,"

Australia

and with Mr. Lyons as leader and Mr. Latham as deputy-leader. (The "alias" party, Mr. Lang's journal calls it; many will regret that the opportunity was not taken to bring to an end the period of more or less "fancy" names and return to the name "Liberal," which grew up and became acclimatised in Australian politics and which stands historically for policies very close to those for which the United Australia party will doubtless become known.) Mr. W. M. Hughes, it may be added, after his abortive attempt to found an independent party of his own, came into the United Australia party. Between the United Australia party and the Country party fairly close co-operation was achieved. They did oppose each other in a few electorates, but nowhere where there was any real danger of losing the seat to Labour by a divided vote. The federal and the State (or Lang) Labour groups both nominated candidates in most of the New South Wales electorates, in a good many cases not so much with any expectation of success as with a view to testing the strength of the rival groups among Labour supporters. Each group also nominated its three candidates for the Senate election. In addition, the Lang group nominated a few candidates in Queensland, Victoria and South Australia, but this was for purposes of propaganda rather than with any expectation of actually winning seats.

Perhaps because the time was so short and the election so sudden, perhaps because the people have had rather a surfeit of plans and programmes in this troubled year, the election issues were never very clear or distinct. For the best of reasons no party leader was willing to adumbrate a detailed course of future action. The main policy speeches were, of course, those of the Prime Minister and of Mr. Lyons—an odd juxtaposition, for not only had the two men fought the last election from the same platform, but they probably think more alike in politics than almost any other two members of the House. Mr. Scullin put forward the achievements of the Ministry as the principal

The Federal Elections

ground for returning it to office. Mr. Lyons treated the record of the Ministry as his principal ground for urging the electors to reject it. The one positive policy which the Labour party put forward was a change in the monetary system. The Commonwealth Bank—or so it seemed from the rather vague terms in which the policy was discussed—was to become, as the Labour party has always wished it to become, a trading bank in active competition over the whole range of banking business with the private banks; a distinct central bank was to be created and if the intentions of the Ministry were rightly to be gathered from their previous banking proposals, the central bank was to be subject to political control. At any rate its immediate function was thought of by Mr. Scullin in terms of “releasing” sufficient “credits” to put all the workless back into employment.

The policy sketched out by Mr. Lyons was even less precise than the Prime Minister's. He traced the dissensions within the Labour party and the vacillations of ministerial policy; he invited the electors to follow Britain's lead and reject a party which had fallen into discredit through failure to deal with economic necessities. He made no promises, he asked only for the return of a Government which would command confidence at home and abroad. He pleaded, like Mr. Ramsay MacDonald, for a “doctor's mandate.”

As the campaign wore on, the United Australia party leaders introduced a little more definition into their policy. Opponents began to recall the stand taken by Mr. Bruce and Mr. Latham in 1929, and to predict the abandonment of the Commonwealth arbitration system if Mr. Lyons were returned to power. Mr. Latham promptly disavowed any intention of repeating the experiment of 1929, and though (like the Labour party at the preceding election) his party was determined to increase the sphere of conciliation in the arbitral system, he declared that they would not introduce any major change without first consulting

Australia

the people at a referendum. Ministerialists also raised the cry that the tariff would be in danger from a Lyons-Latham Ministry. This attack was parried by a declaration that the United Australia party was definitely protectionist, but that it advocated a sane tariff, based in all cases on the recommendations of the Tariff Board, and adjusted where possible so as to extend the area of Empire trading. The onslaught on the tariff led in the last weeks of the Parliament by the Nationalist Senators did, however, afford ministerialists a colourable ground of attack. United Australia party speakers were able to show clearly enough that the tariff schedules brought in hastily by the Labour Government at intervals ever since it took office bristled with anomalies and even absurdities, and were imposed generally without prior consultation with, and often contrary to the subsequent recommendation of, the Tariff Board. Indubitably the tariff stood in need of revision—as well as validation—at the end of 1931. But Labour speakers pointed triumphantly to the fact that at the time of the dissolution the Senate had dealt with only the first eighteen items on the list, and had reduced thirteen of them. Since this fact alone was quite enough to frighten electors who had any doubts of the United Australia party's firmness on the tariff issue, and a certain loss of support in this issue was inevitable, the leaders of the party might well have taken a bolder line about the tariff, and so kept their hands quite free to do what the situation may turn out to require. But it is easy to say this after the event. To have acted in such a way before polling day may perhaps have demanded a more robust confidence of success than the facts then warranted.

The Country party did not play as large a part in the campaign as might have been expected. Having always had to depend on a number of votes in country districts which would normally go either to the Nationalists or to the Labour party, the Country party has never been able to stand openly and uncompromisingly for farming interests,

The Federal Elections

but has had to make compromises in all directions and steer a middle course, hoping to be able to exercise a moderating influence upon any Government in power, even possibly to hold the balance of power itself. In this election Dr. Page did pronounce definitely in favour of a downward revision of the tariff in order to afford relief to export industries and to facilitate an extension of Empire trade. (It would, however, be a mistake to suppose that Australia's policy for the forthcoming Ottawa Conference was canvassed in any serious way during the election campaign.) Dr. Page also advocated a number of constitutional amendments, in particular one to facilitate the creation of new States. This has all along been an objective of the Country party. In New South Wales it has recently become a matter of considerable importance, since in a number of rural centres disgust with Mr. Lang's administration has produced movements for separation from New South Wales.

As polling day drew near, ministerialists pushed their monetary policy as much as they could into the background, feeling apparently that it was unsafe ground to fight on. The Opposition, of course, was by no means inclined to let it drop. Opposition speakers dwelt on the evils of inflation, and claimed that the history of the New South Wales Savings Bank showed the insecurity of the people's savings if Governments were allowed to meddle with the banks. Thus, instead of a campaign of promises, it developed into a campaign of terrors. Each side claimed support because of the dangers of putting the other into office. But it is very doubtful whether there was much public conviction on any of these dangers. There was a vast deal of talk during the campaign, but little real excitement. Feeling not unnaturally ran strongest in New South Wales where, in addition to the contest between the Labour and anti-Labour forces, there was a bitter internecine battle between the federal and the State Labour groups, the more bitter since the factions were divided by loyalty to persons rather than by adherence to principles. The

Australia

federal Labour group denounced the Lang group as wreckers and as the real enemy of the workers, since only in solidarity could the dangers of a Lyons-Latham triumph be averted. The Lang group denounced the Scullin-Theodore group as weak men of compromise, afraid to embrace the only policy that would save the workers from exploitation by the moneyed interests, and borrowing the only valuable elements in their policy from Mr. Lang himself. Mr. Lang's forces concentrated especially upon Mr. Theodore's electorate (Dalley), and only in Dalley was the Mungana affair brought into the foreground during the campaign. "Yes, we have no Munganas," sang Mr. Lang's supporters at Mr. Theodore's election meetings.

It was difficult for an impartial observer to suppose that the Labour Government stood a chance of being returned to office. In its principal stronghold, New South Wales, its supporters were bitterly divided, the country districts were completely disillusioned about Labour policy, the party had lost support everywhere and apparently had not gained it anywhere. Mr. Lyons, whose star had latterly been a little on the wane, came back remarkably into public esteem and succeeded in arousing a good deal of enthusiasm wherever he went. But only the unbounded optimism of Dr. Earle Page, the leader of the Country party, suggested a turn-over of public opinion as great as that which the polls have revealed. On the eve of the election he prophesied that the Labour party would be lucky to have as many as 25 seats in the new Parliament. He was right. The Labour party has been swept clean out of Tasmania, left with only one seat in South Australia and in Western Australia, and reduced to a handful in Victoria and New South Wales. Only in Queensland did Labour gain any ground. Mr. Scullin went to the polls with 35 supporters. He lost 23 of them (including six Ministers) and even his two gains in Queensland will, as is shown above, give him only 14 seats in the new House. In the Senate election it appears probable that three anti-Labour Senators will be

The Federal Elections

returned in every State except Queensland. Mr. Lyons will therefore have a following in the Senate of about 28 in a House of 36. In the House of Representatives the state of parties will be :

	Old Parliament	New Parliament
Federal Labour	35	14
State Labour	5	4
United Australia	23	39
Country	11	16
Independent (anti-Labour) ..	1	2
	—	—
	75	75

Mr. Lyons will thus have an absolute majority, without needing to rely on the Country party or the two Independents.

The most obvious feature of the voting is, of course, the complete downfall of the Ministry and the heavy anti-Labour gains everywhere except in Queensland. In 1929, on the industrial arbitration issue, a certain number of seats which ordinarily are held by anti-Labour members swung over to Labour. It was only to be expected that these would definitely revert to anti-Labour at the 1931 election. This process has certainly taken place. Mr. Bruce's return for Flinders is the outstanding case. Major R. G. Casey, until recently Australian Liaison Officer at the Cabinet Office in London, has also won a seat in this category. But the turn-over is, of course, very much more extensive than this. Many seats which have been Labour strongholds for years have returned United Australia party members. Perhaps the outstanding instance is the Victorian constituency of Batman in which the Attorney-General, Mr. Brennan, has been rejected after having held the seat since 1910. Even in seats which have still returned Labour members the anti-Labour vote is often larger than it has ever been. It is quite clear from this that there is something more than the usual set of opinion against a Ministry in office. On the other hand, the Labour gains in Queensland are commonly attributed to the unpopularity

Australia

of the Nationalist Government, which has held office in the State for nearly three years. In Queensland, Labour not only held all its existing seats, but actually gained two and now holds five out of ten seats. Similar developments, however, did not take place either in Western Australia or in Tasmania, both of which have Nationalist Governments, and it is obvious that the general loss of confidence in Labour is very great.

In New South Wales the change is the most remarkable of all. Mr. Scullin now has three seats only, where he had 20 a short two years ago, and 14 when he went to the polls. Mr. Theodore has been overwhelmingly defeated by a Lang group candidate. The Lang group will have four seats—a loss of one. So far as the issue in New South Wales was one between two rival Labour factions the result has been decisive in favour of Mr. Lang. On the primary votes it looked very much as though the Lang group would win nine New South Wales seats. So bitter, however, was the feeling between the rival groups that anything up to half of Mr. Scullin's supporters gave their second preferences to the United Australia party rather than to the State Labour candidates. This explains the loss of several Sydney Labour strongholds to the United Australia party. The voting for the Senate candidates, however, reveals clearly the triumph of the State Labour group over the federal. It has polled nearly 70 per cent. of the total Labour vote in New South Wales. Mr. Lang was believed to cherish an ambition to enter federal politics, and it is understood that the new member for Reid, Mr. Gander, is willing to resign at any time to enable him to contest the seat. But whether Mr. Lang would find the House of Representatives attractive in the new state of parties is at present unknown.

It is always a delicate task to assign afterwards the reasons for action which in many cases was probably quite unreasoning. But some factors, at any rate, which caused the Labour collapse may be isolated with confidence. It

The Federal Elections

has been well remarked that in times of crisis the elector votes not so much for men and policies as against them. The reasons for voting against Mr. Scullin's party were probably very various. Though relatively little was made of the Mungana affair, for instance, it left behind it widespread misgiving and distrust, both of Mr. Theodore himself and of his influence in the counsels of Mr. Scullin. Again, the career of Mr. Lang has undoubtedly lost the Labour party a great deal of support, not only in New South Wales itself but throughout the Commonwealth. The elector was quite unconvinced by the fact that Mr. Scullin and Mr. Lang were fighting each other; they were both Labour men, he argued, and what is Mr. Lang's policy to-day may very well be Mr. Scullin's policy to-morrow. The history of the State Savings Bank in New South Wales was a telling argument against Labour policy everywhere. Thousands of votes against Federal Labour were votes against Mr. Lang. It is not only in New South Wales that Mr. Lang has smashed the Federal Labour party. But over and above all other reasons for rejecting Mr. Scullin there lay the feeling, which was not altogether fair to him, that he had failed to put the country in the way of prosperity, that the present burden of unemployment is intolerable and that somehow or other a change might do good.

On the morrow of the election Mr. Scullin resigned and Mr. Lyons was commissioned to form a Ministry. Mr. Lyons was anxious to broaden the basis of his administration as much as possible, and accordingly offered three portfolios to the Country party—which had increased its representation by nearly 50 per cent., having swept Labour out of the country constituencies in New South Wales. This offer was refused. The Country party decided that the only terms on which it would enter the Ministry would include the offer of the portfolio of Trade and Customs to its leader. Dr. Page's party will therefore remain outside the Ministry as "benevolent critics." It is quite clear from

Australia

this that tariff revision will be the grand issue in the new Parliament.*

The new Ministry will have a clear enough majority, but very grave problems to face. It is perhaps rather a pity that there has been so much talk since the election of better times ahead for all, and work for the workless. On the other hand the new Ministry comes in on a powerful wave of national support and will doubtless command general approval if it rises above party and faces the problems ahead of it in a truly national spirit. The leaders themselves are vigorously alive to this. Perhaps the most serious element in the situation is the smashing of the parliamentary Labour party. Movements are already afoot to try to heal the breach between the two wings of the movement. In the hour of weakness of the parliamentary party, it is very likely that the industrial section will gain control of the entire organisation, and that during this period of opposition the whole party will swing definitely towards the left. The result of the Senate polling in New South Wales shows how strong a grip the industrial section has, in that State at any rate. If the result of this election is ultimately to eliminate the Scullin group from the party organisation as well as from the House, Australia will have, very soon, to face the issue which New South Wales has had to face in the last few months. The contest will be, not who is to work existing institutions, but whether existing institutions are to survive. Australia looks to the new Government to show that existing institutions can work, and can bring prosperity to the people.

* The constitution of the Australian Cabinet was announced on January 3 as follows: Prime Minister and Treasurer, Mr. Lyons; Attorney-General, Mr. Latham; Defence, Sir George Pearce; Trade and Customs, Mr. Gullett; Postmaster-General, Mr. Fenton; Markets and Transport, Mr. Hawker; Home Affairs, Mr. Parkhill; Health, Mr. Marr; Vice-President of the Executive Council, Mr. McLachlan, with Messrs. Bruce, Massy-Greene, Francis and Perkins as Honorary Ministers.

The Reduction of Interest

II. THE REDUCTION OF INTEREST

THE Premiers' Conference of May 25 to June 11, 1931*, resolved that the reduction of wages that had been brought about by alterations of industrial awards, the reduction of 20 per cent. in adjustable government expenditure, and the conversion of the internal debts of the Commonwealth and State Governments at an arbitrarily reduced rate of interest should be accompanied by a reduction of rates of interest on mortgages and on the deposits and advances of trading and savings banks. With the fall in prices since 1929, payment of interest at the rates hitherto prevailing, the Conference considered, had become an intolerable burden on all industry, whereas a lower rate of interest would, it thought, reduce costs and so assist industry to recover and stimulate employment.

These reductions have now been made by legislation in the States. But, once launched on the task of rectifying contracts, the legislatures found they had to go further than the Premiers contemplated in their plan; and to-day, six months after the Conference, Bills to alter contracts are still being discussed, and more may follow.

In a report to the Conference a committee of under-treasurers and economists had recommended that a reduction of 15 per cent. should be made in the net return on fixed money claims. This was to be in addition to a special tax of $7\frac{1}{2}$ per cent., to which incomes from property are already subjected. The Conference added these two amounts together and decided that the conversion of government loans should be at a reduction of $22\frac{1}{2}$ per cent., or 4s. 6d. in the pound, of the former rate of interest. This reduction of $22\frac{1}{2}$ per cent. won widespread approval, be-

* See THE ROUND TABLE, No. 84, September 1931, pp. 894-903, and Proceedings and Decisions of the Conference in Commonwealth Paper No. 236 of 1931, p. 172; see also THE ROUND TABLE, No. 85, December 1931, pp. 174-176.

Australia

cause it was thought to be about the percentage by which wages had fallen since the onset of the financial crisis. It was well known to the Conference that many holders of fixed money claims had suffered, through non-payment, a reduction in income of much more than $22\frac{1}{2}$ per cent., but the Conference considered it necessary to reduce such fixed money claims as had not already been diminished in order to make possible the other economies that were essential to prevent a collapse. Legislatures therefore adopted Bills based on a draft submitted to the Conference, the effect of which would be to reduce interest on mortgages in the same ratio of 4s. 6d. in the pound, but not to a rate of less than 5 per cent. of the principal except in the case of debentures in New South Wales, on which the rate may be reduced to 4 per cent. In Victoria, New South Wales, Western Australia and Tasmania this reduction is applied by law without the borrowers having to take any step. It is left to the holder of the mortgage to apply to the courts if he wishes relief from the reduction. In Queensland and South Australia the reduction is made by agreement between the parties, but if there is a dispute the mortgagor has the right to apply to the court to have the reduction made. Similar provisions apply to interest payable on contracts for the purchase of land by instalments and on hire-purchase agreements. In most of the States the rights of mortgage holders and vendors of land to recover principal sums by legal action, sale or foreclosure are now to be exercised only by order of a court ; but in some States the legislation has been so worded as not to prevent a mortgage holder from agreeing to accept payment of an overdue mortgage by advancing a new loan at 6 per cent., in which case the mortgagor cannot obtain a protection order. The interest on company debentures (if secured by mortgage) and on the loans of local authorities is similarly reduced. Some of the States exclude banks, others include them in these provisions ; but in every State there have been reductions both of overdraft and fixed deposit rates. In addition to

The Reduction of Interest

the general legislation, some States have passed special legislation for the protection from their creditors of farmers and unemployed tenants of houses. Interest payable under contracts which give no security over property is not affected by the legislation. Interest on new mortgages is not affected, but the rate is tending downwards. In New South Wales and Victoria all rents have been reduced by 4s. 6d. in the pound. In New South Wales also the rate of dividend on preference shares fixed by the memoranda and articles of companies has been reduced by 4s. 6d. in the pound.

The periods for which these alterations are to remain in force vary. In some States mortgage interest is reduced for the whole term of the mortgage; in others for one to three years. In New South Wales no term is fixed for the reduction of dividends on preference shares, but it is possible to avoid the reduction by reconstruction of the company. The reduction of rents lasts only until December, 1932.

It is difficult to assess the effect of these statutory interferences with private contracts. Very large sums of idle money are accumulating; but how far disinclination to invest is due to the fear of legislation that might affect the lender's or investor's rights, and how far to uncertainty as to present values and future prices, no one can say. Australia has long been accustomed to much parliamentary regulation of private affairs, and it may be that the latest extension of such interference will have fewer ill results than in a country less disciplined in the past.

As to the reduction of costs, a saving of less than a quarter of the interest on borrowed money used in industry seems too small to have much direct effect on manufacturing costs; but the saving will greatly assist farmers and graziers who have incurred charges on their properties based on values far in excess of what is justified by the present price of their products. Whether or not an important reduction of costs has been achieved, it seems

Australia

clear that the legislation is far from bringing about an equality of loss, either present or future, among lenders and investors. If adjustment of the burden of money claims to changes in the value of money is to be a permanent object of policy, there would be a nearer approach to equality if the amount of all future debts could be made to vary with some general index of prices.

The effect of the world economic crisis on Australia, and the means taken to combat it by Parliament and industrial tribunals, may be summarised. Prices realised in Australia for the principal exports have fallen on the average since 1928-29 by over 50 per cent.; in terms of gold, the prices are only 30 per cent. of what they were some few years ago. The national income, £650 million in 1928-29, was probably no more than £460 million in 1930-31; unemployment, in normal times about 8 per cent., but as high as 13 per cent. in 1929, now stands at 28 per cent. The total deficits of Governments, Federal and State, which were £31 million in 1930-31, and threatened to grow to £41 million in 1931-32, will be reduced according to the revised budgets to £18 million in the current year; results so far indicate a further improvement on the budget estimates. Interest payments on loans contracted in Australia by Governments and local authorities are reduced by $22\frac{1}{2}$ per cent. of their former amount; this reduction runs for the whole term of the converted securities—varying from 7 years to 40 years. Nearly the whole of the interest payable on mortgages and contracts of purchase of land is reduced by $22\frac{1}{2}$ per cent. of the former amount; this reduction—unless there is further legislation—will last on an average not more than two years. Wages in most of the industries under awards of the Federal Arbitration Court have been reduced on the average by 28 per cent. below the rates prevailing in 1929; this reduction, however, varies from quarter to quarter with the Commonwealth Statistician's index number of retail food prices and house rentals. The State industrial

The Reduction of Interest

courts (except in New South Wales) have also made substantial reductions of wages.

These readjustments in the distribution of the country's income have been accepted with unexpected readiness, and the disturbance to business has been surprisingly small. Not a little of this adaptability must be attributed to the widespread knowledge of the price-index just mentioned, which by its use in the Arbitration Courts has assisted the public to think of money incomes in terms of purchasing power. There has, inevitably, been much hardship from loss of income, but the appearance of fairness presented by the scheme of adjustment has been a great assistance in procuring its acceptance.

Australia.

December 31, 1931.

POSTSCRIPT

It was announced in *The Times*, February 11, 1932, that Mr. Bruce, formerly Prime Minister of the Commonwealth, and a member of the present Australian Cabinet, will head the Australian delegation at Ottawa, and that after the Conference he will act as Minister representing the Commonwealth in London. The appointment of a resident Minister in London, to take over at least temporarily the functions of the High Commissioner, is a development of great significance in the political relations of the Empire. (See THE ROUND TABLE, No. 64, September 1926, p. 682; No. 66, March 1927, p. 231; and No. 81, December 1930, p. 100.)

SOUTH AFRICA

I. THE POLITICAL SITUATION

AT the moment the political situation in South Africa turns upon the controversy over the gold standard. The Government have linked their fate with its maintenance, and all our resources and all the party loyalty of their supporters in the country will be drawn upon to the utmost to avoid defeat. As this question is dealt with in another section, there remain under this heading only one or two matters of which something will be heard during the ensuing sitting of Parliament, but which are not at present in the first line of public interest. The Bills dealing with the representation of natives and coloured persons in Parliament are still before the Joint Committee of both Houses, which has been reconstituted for the session. It is apparently expected that the Bills will be finally reported during this session, and that they will be accepted or rejected by the present Parliament, so that in the event of rejection a general election can be fought on that issue. So far, the proceedings in the Joint Committee have been kept entirely secret; hence it is impossible to forecast in what form the Bills will emerge from it, or what amount of support the final report will receive in the Committee. The appointment of the Committee was welcomed as an attempt to remove from the arena of party controversy legislation on a matter lying so close to the roots of our political life. Experience in the gold standard controversy, however, has led many to doubt whether

The Political Situation

the private judgment of members who support the Government will ever be allowed to run counter to the claims of party loyalty.

Another of our many racial complications is at present the subject of a conference, a sort of small scale Round Table Conference, between the Union Government and the Government of India. The main subject of this conference is the agreement, or agreed statement of policy, which was adopted and published after the meeting of a similar conference in 1927. That event marked the opening of a new epoch in the relations between India and the Union. For the first time the representatives of the two Governments met in conference to discuss the many difficult and delicate problems arising from the relations of the European and Indian populations in South Africa. Such a meeting involved for each side a departure from its traditional position. The Union conceded to the Indian Government a right to interest itself in, and make representations about, the condition of the Indian population here in respect of the domestic legislation of the Union. The Indian Government, on its side, accepted the policy of the Union Government to reduce as far as possible by repatriation the numbers of its Indian population, and was prepared to lend its assistance to a scheme whereby repatriation should be promoted on a more extensive scale than hitherto. From the conference there resulted an agreed statement of policy in regard to the status of Indians in the Union on the one hand, and on the other to the assistance to be given by the Indian Government to a more generous and efficient scheme for encouraging the emigration of Indians from South Africa. But perhaps a more important result of the conference was the appointment by the Government of India of an Agent-General in the Union. That step and the fact that the first Agent-General was the Right Hon. Srinivasa Sastri gave South Africa an entirely new outlook as regards India and its people. His successor, Sir Kurma Reddi, has well and ably carried on

South Africa

the work which he took over, and, though outwardly the difficulties arising from the presence in South Africa of a comparatively large and progressively assertive Indian population do not seem to be nearer solution, the two Governments have been brought into friendly relations, and full and frank discussion has replaced an atmosphere of misunderstanding and protest.

It was a tacit understanding at the previous conference that the position should be reviewed in, say, five years' time, and this review is now in progress in the form of a second conference. The former conference was a meeting of members of the Union Government on the one side and the representatives of the Government of India on the other. There was, however, a tacit understanding between the Government and the Opposition, which on the whole has been loyally observed, that the Indian question should as far as possible be kept out of party politics. On this occasion the Union is represented at the conference by three Ministers and two members of the South African party, so that any agreement which may be come to may be regarded as the joint responsibility of both the main political parties. The policy of repatriation contemplated by the existing agreement has not fulfilled the expectations that were formed of it by the Union, and it is generally recognised that if any simplification of our problem is to be found in the emigration of Indians now in South Africa it will not be along the old lines of repatriation to India. Whether the present conference will result in a new agreement on different lines, or will be content with an interchange of views and the maintenance of existing relations, will be a matter of history before this appears. In any case our Indian question—the impact of the Indian upon the European population, growing in extent and intensity as the Indians advance in education and competitive efficiency—will be with us for many years still.

The financial outlook is far from reassuring. In spite of economies both in the general government services and in

The Battle of the Gold Standard

the railway administration, the current year of account will end with substantial deficits. Further retrenchment and taxation appear to be inevitable and will prevent or neutralise any appreciable fall in costs such as the champions of the gold standard have promised us. The position of the agricultural industries is in many parts of the country almost desperate. Fortunately the gold mines of the Transvaal maintain to the full, or even exceed, their past records of production. That alone stands between us and much more serious trouble.

II. THE BATTLE OF THE GOLD STANDARD

DURING the past three months the burning questions of the hour, discussed ceaselessly from the platform, in the press, and in private conversation even among persons who normally evince little interest in politics or economics, have been whether South Africa will leave the gold standard and, if so, when. In attempting to answer these questions account must be taken of two separate and partly independent factors—the financial and the political.

The chief financial difficulties which the Government have had to face in carrying out their policy have been due to the great outflow of capital to London, mainly for more or less speculative purposes, the reluctance of many exporters to sell at present prices, and the refusal of owners of funds outside the Union to bring them into the country, until compelled by sheer necessity to do so, in face of the heavy loss to be incurred by realising depreciated sterling. The combined result of these factors has been that, in spite of "rationing," the demand for foreign exchange has been quite abnormally large, while the supply has been unusually small.

Until the beginning of November the excess demand for sterling was met almost entirely out of the London

South Africa

balances of the Reserve Bank, which on September 18 amounted to nearly £6½ millions. By November 6 these had been completely exhausted, and the sole liquid asset remaining to the Bank was its gold holding of slightly over £6 millions, almost all of which was required as legal backing for its notes and other liabilities. It was known that the efforts which had been made to raise a foreign loan in New York, Paris or Amsterdam had resulted in failure, and during the first days of November it appeared probable that the gold standard might be abandoned at any moment.

Towards the end of the second week of November, however, it became known that the Government had succeeded in inducing the two principal commercial banks to undertake to contribute to an exchange pool the sum of £5 millions from their London assets. At the same time the Reserve Bank rate was belatedly raised from 5 per cent. to 6 per cent., thus permitting, in terms of the Currency and Banking Act, a reduction in its legal ratio of gold reserves to liabilities to the public from 40 per cent. to 32½ per cent., and making available for export in support of the exchange an additional £1,150,000; and it was announced that if necessary the conditions of the Act would be modified to allow of the disposal of additional quantities of gold without increasing the bank rate to the level laid down in the Act.

It is no secret that the commercial banks consented to subscribe their share of the pool only with the very greatest reluctance. In contrast to the Reserve Bank, which had had its liabilities entirely in the Union but its assets largely in London, and which had therefore suffered very heavy losses, the commercial banks' liabilities and assets outside the Union were on September 19 approximately equal. They had, therefore, hitherto suffered practically no losses, and, so long as they were able to maintain this balanced position, any alteration in the exchange rates would affect their liabilities equally with

The Battle of the Gold Standard

their assets and they could view with equanimity even the most violent fluctuations. Once, however, they had reduced their London assets without a corresponding reduction in their London liabilities, any improvement in sterling relatively to the South African pound would involve a greater increase in their liabilities than in their assets and would involve them in serious loss.

As the negotiations were carried on in secrecy, the means by which the Government induced the banks to abandon their balanced position and to undertake what was, in essence, a large-scale speculation in foreign exchange, are of course not known. It is, however, possible to make certain guesses which are probably not far from the truth.

In the first place, the commercial banks were at that moment in an economically vulnerable position. In order to pay for the abnormal quantities of foreign exchange which they had bought from the Reserve Bank to sell to their customers, they had already rediscounted practically all the eligible local bills which they had in their portfolios, and had probably been compelled to avail themselves of other facilities besides. The curtailment or withdrawal of these facilities by the Reserve Bank would have rendered them unable to pay for the legitimate exchange requirements of their customers, and they would have been compelled either to sell exchange for which they had not obtained cover (which was, of course, just what the Government was trying to induce them to do), or rigorously to curtail their sales of exchange. This latter step, while offending many valued clients, would have been of no real help to the banks, for the Reserve Bank could then have sold exchange to their customers direct, receiving payment in the form of cheques drawn on the commercial banks. The consequent heavy adverse clearing balance with the Reserve Bank would have depleted their balances with that institution, and in the absence of rediscount or other facilities would ultimately have caused their reserves to fall below the legal minimum, thus rendering the banks

South Africa

liable to the heavy penalties laid down in the Currency and Banking Act.

The obvious counter to this would have been for the commercial banks to strike at the Reserve Bank's source of supply of foreign exchange by outbidding it for the new gold coming from the mines ; but the Government intimated that they were not prepared to allow this, and that if such measures were attempted they would take powers to compel the mines to sell their output to the Reserve Bank only.

The only line of defence still left open to the commercial banks was the rigorous restriction of advances, thus checking imports and compelling some owners of money outside the Union to bring it home. This action the banks have taken, so far as is possible without imposing too drastic a handicap on the business of the country, but its effects are necessarily slow.

On the economic side, therefore, the banks were faced with the choice between acceding to the Government's demands or being placed in a position in which they would be compelled to incur legal penalties. It is possible that if they had stood firm the Government's legal powers would have proved impossible to enforce without bringing to a standstill the whole business of the country. This, however, would have involved the banks in a direct political struggle, probably tinged, since both the chief banks are now London companies, with more than a trace of racialism ; furthermore the Government let it be seen that it held behind its back the weapon of a State bank, and while in normal times the commercial banks would probably regard the institution of such a bank with nothing more than annoyance, the threat of the institution of a State bank in circumstances which might give it the support of a strong wave of racial feeling could hardly be regarded with equanimity. Even if the banks had been successful in standing out, their open defiance of the Government would have involved them in an exceedingly bitter political controversy, which would probably have resulted in the

The Battle of the Gold Standard

permanent estrangement of a large section of their customers and would have laid them open to various forms of official persecution, perhaps for many years. On the whole it is not surprising that they allowed themselves to be coerced into promising to use £5,000,000 of their London assets to support the South African pound and the Government's policy.

Whether this will in fact result in serious loss to them is still in doubt. After completing their contribution to the pool the banks will have sold £5,000,000 of sterling in exchange for little more than £3,650,000 in South African currency. If they can subsequently buy the whole amount back at approximately the same rate they will, of course, suffer no loss; but if, before they have replaced it, the British pound appreciates in terms of South African money, they will need to pay for it substantially more than they have received, while if the British pound returns to parity with gold, or the South African pound falls to parity with sterling, before they have replaced any of it, they will suffer a loss of over £1,300,000. This loss, while serious, would not be disastrous, for the amount is covered several times over by existing reserves. The effect of the position is, however, to be seen in the heavy fall which has taken place in the values of South African banking shares.

Shortly after the inauguration of the exchange pool a special session of Parliament was held, and the alterations in the Currency and Banking Act were legalised. In addition, the Government took powers to make regulations having the force of law "in regard to any matter directly or indirectly relating to currency, banking, or exchanges" and to "suspend any Act of Parliament or any other law relating to currency, banking, or exchanges." The Government's legal powers under this Act appear to be almost infinitely wide.

Since the formation of the pool the technical exchange position has become very much easier. Between Novem-

South Africa

ber 6 and December 31 the Reserve Bank increased its holding of gold from £6,072,000 to £8,104,000 and its holding of foreign bills from nil to £41,000. Even, therefore, if we assume that the commercial banks had by the end of the year contributed the whole of their promised £5,000,000 to the pool, the net loss of foreign exchange and gold to the country as a whole was less than £3,000,000 in eight weeks, as compared with a loss of nearly £6,500,000 in the seven weeks from September 18 to November 6. Furthermore, it appears that the intense financial stringency is now beginning to have its effect in a marked reduction of imports, while it is believed that some of the funds at present being held by Union nationals outside the Union will soon be forced to return. From the purely exchange standpoint, therefore, the Union should now be able to maintain the gold standard for several months and perhaps permanently.

While, however, on the economic side the Government's difficulties have diminished, on the political side they have greatly increased. Public opinion throughout the country appears to become more and more hostile to the Government's policy, and many different sections of the community are demanding the abandonment of the gold standard, which, it is generally believed, would be followed by a return of South African currency to parity with sterling, a rise in the apparent price received by the South African exporter and the end, or at least the marked alleviation, of many economic troubles.

In the opinion of the writer it is unlikely that, in the absence of inflation, the abandonment of the gold standard would in fact result in the permanent establishment of the South African pound at parity with sterling. Thanks to the gold mines, the economic position of this country is fundamentally strong, and the return of the South African pound to parity with sterling would probably be followed by an inflow of capital almost as large as the abnormal outflow which has been causing so much trouble during

The Battle of the Gold Standard

the last few months. This would not improbably cause the South African pound to rise again to a premium over sterling, and thereafter to hover, with considerable fluctuations, somewhere between parity with sterling and parity with gold.

However this may be, the wool farmer, at present receiving an average price of about 5d. per lb. for his wool, in place of the 1s. 3d. of three years ago; the producer of hides and skins, the prices of some types of which barely cover cost of transport; exporters of fruit, wine, eggs and dairy produce, now dependent almost entirely on the British market, all believe that the abandonment of the gold standard would bring an increase of nearly 40 per cent. in the price which they receive for their produce, and the disappearance of the imminent threat of bankruptcy which hangs over many of those who have bought and mortgaged their farms at the grossly inflated prices of land which have ruled during the past few years.* The man dependent on overseas or Rhodesian dividends, remittances, or pension believes that it will mean the restoration of his income to its former level. The hotel keeper hopes for the removal of the check which the adverse exchange rate is causing to the tourist industry, both from Rhodesia and from overseas. Business men generally expect the disappearance of the element of uncertainty which the absence of a forward exchange market makes inevitable during a period of fluctuating exchange rates; for the removal of the existing restrictions on the sales of exchange by the banks; and for some relaxation of the present acute financial stringency. More important still, to the gold-mining industry it seems to offer the long-sought opportunity of rendering profitable the working of the great masses of low grade ore which at present lie just below the margin of profitability,

* Local manufacturers likewise hope to enjoy a decrease in the severity of the competition from imported goods, and to recover their Rhodesian markets, which they are now in danger of losing almost entirely since both Rhodesias have followed sterling.

South Africa

and a great extension of the lives of the mines ; while to the gold-mining shareholder it appears to offer higher dividends, reduced need for amortisation, and a considerable appreciation in the capital value of his holding.

To all these and many others the gold standard appears as a barrier inexplicably maintained by a tyrannical Government to prevent them from entering the promised land, and in the circumstances it is not surprising that the agitation for leaving it has now attained very considerable proportions, even in quarters which normally support the Government. After some hesitation, the leaders and press of the Opposition are now lending to this agitation their fullest support, and the South African party have thereby obtained the first generally popular plank in their programme that they have had for years.

In face of this agitation the Government have hitherto maintained a bold front. They state that they are absolutely determined to stay on the gold standard, that they are confident of their ability to do so, and that nothing and nobody will divert them from their chosen path. This determination they support by various arguments. In the first place it is claimed that the competitive advantage which the countries that have left the gold standard have obtained is only temporary, that the price and wage levels in these countries will in due course adjust themselves to world parity, and that the present difficulties of this country will gradually disappear. Meanwhile they have arranged to assist the producer for export during the period of transition by giving a subsidy for one year of 10 per cent. (in a few cases 15 per cent.) on all exports of primary produce except gold, diamonds and sugar. The subsidy, which is financed by a 5 per cent. primage duty on all imports, is to be paid direct to the producer, and it is understood that the administration of the scheme has hitherto encountered some practical difficulties. In addition, a dumping duty, equal to the exchange depreciation in excess of 10 per cent., has been imposed

The Battle of the Gold Standard

on all imports from countries off the gold standard which are considered to compete with local production.

The Government's faith in the temporary nature of our producers' difficulties would be more easily shared if they were indeed mainly due, as the Opposition also is inclined to infer, to the widespread abandonment of gold. In fact, however, it seems probable that they are due rather to the lack of internal adjustment to the continued fall in world prices, and it may be doubted if our exporters would have been very much better off even if Great Britain were still on the gold standard. He is a bold man who would definitely commit himself to the prophecy of any substantial rise in world prices in the near future.

Another argument which is frequently used by supporters of the Government's policy is that the abandonment of gold would be followed by a large and rapid rise in prices, followed by demands for higher wages and a period of acute labour troubles. It is of course probable that the mine-workers would demand a share of any increased profits earned by the gold mines, and their example would possibly be followed to some extent by workers in other industries. There would also be a considerable rise in the prices of imported goods (though the consumer does not seem as yet to have benefited from their fall to any great extent). Nevertheless, judging from the experience of other countries, in the absence of inflation, it would appear unnecessary for the cost of living to rise by more than, say, 5 per cent. The fear of a large and rapid rise would, therefore, seem to be due to some expectation of inflation. No doubt many of the interests now pressing for the abandonment of gold would be disappointed at its results, and would then proceed to press for some measure of inflation, open or concealed; but this could only take place through the action or negligence of the Government, and for the Government to assume that the abandonment of gold would be followed by inflation is tantamount to their expressing a lack of confidence in themselves.

South Africa

Another and very strong reason for the Government's policy is that they will thereby save not much less than £2,000,000 per annum on the interest on the country's foreign debt. This will be more than welcome to our Finance Minister, Mr. Havenga, or rather, since much of this debt was incurred on behalf of the railways, to both Mr. Havenga and Mr. Malan, Minister of Railways, both of whose accounts would otherwise probably show a very substantial deficit on the year.

Finally, there has been some tendency on the part of certain members of the Cabinet to leave the narrow and thorny by-ways of economic theory for the broad and well-trodden highway of political rhodomontade. According to them, to leave gold would be to acknowledge that the Union is the economic slave of England, whereas to stay on gold is a sign of our growing independence, economic as well as political, from the hampering and ignoble fetters of the British Empire. He who thinks otherwise is no true South African. To make the Union's economic independence even more manifest, we are now promised a new currency with a good South African name, subdivided on the decimal system. The change-over, at a time when there are already a fair number of complications in the way of trade, will scarcely be welcomed by the business community; and it is hard to see in what way it can provide any remedy or alleviation for our present difficulties.

The palliatives offered by the Government appear to have gone some way towards satisfying local manufacturers, but by the farmers they are declared to be altogether inadequate. The agitation for abandonment grows from day to day, and it seems not unlikely that the Government may have a little trouble with some of their own supporters when Parliament meets at the end of this month. Many rumours are circulating—that the Government will change their policy; that they will resign voluntarily in order to test the feeling of the country at a general election; that they will be forced to resign by a revolt of their own back-

The Battle of the Gold Standard

benchers ; that they will take advantage of the introduction of the new currency to camouflage a measure of devaluation, thus keeping the letter of their undertaking to remain on the gold standard.

On the whole, it seems probable, though by no means certain, that none of these things will happen. The Government missed their chance of sliding gracefully off the gold standard when they insisted on coercing the banks last November. They could easily have failed to do so, and could have then covered their retreat by laying the blame on the banks. Now that the physical necessity of the step is more remote, it will be difficult for them to abandon the position they have so emphatically taken up. Further (though this argument may carry only a doubtful weight), after conscripting the banks to become their allies in the battle in defence of the gold standard, to betray them deliberately to heavy losses would be one of the meanest actions in the political history of the country. It is even less likely that the Government would choose this singularly unpropitious moment to go to the country. Parliament has more than two years of life left, and there is always the hope that by 1934 the worst of the depression will be over and the farmers ready to listen to the well-worn speeches of their leaders once again. Again, the Nationalist back-benchers are good party men, and while it is not inconceivable that they might carry their revolt into the division lobbies, it is more probable that they will be satisfied by further palliatives and will avoid the necessity for an immediate election, which would result only too probably in the accession to power of the hated Opposition. The devaluation rumour is more credible. But it has received no sort of confirmation from any responsible source, and must for the present be disbelieved.

On the whole, it seems probable that this Parliament will run its full course, and that the Government will maintain their policy, although they will probably have to give various further sops in the shape of increased tariffs,

South Africa

bounties and subsidies in order to prevent their followers from getting out of hand. Unfortunately they have as yet shown little sign of realising what are the necessary economic concomitants of their policy. For any one country, while keeping its currency at parity with gold, to attempt to maintain a more or less fixed level of prices and wages in the face of a continuous fall in the world price level must result in a position of extreme economic disequilibrium, maintainable only with the help of a large assortment of artificial props.

It is true that the Wage Board has recently shown rather more appreciation of what is economically possible in making awards, while the ill-effects of wage-fixation by law appear to an increasing extent to be palliated by "widespread and systematic evasion." Nevertheless the majority of skilled and semi-skilled wage rates are still legally fixed at high levels under the Wage Act and the Industrial Conciliation Act; prices of wheat and sugar are to all intents and purposes fixed by law at something over twice the world level; prices of maize, butter and cheese are maintained by an artificial local scarcity caused by compulsory export. Prices of imported goods are maintained and increased by customs, primage and dumping duties. Since 1928 the cost of living (food, fuel, light and rent) has fallen by little more than 5 per cent., while more or less comparable falls abroad are: in the United States 15 per cent., and in the United Kingdom 12 per cent. in terms of sterling and 36 per cent. in terms of gold.

In the circumstances, the outlook for this country is not cheerful. The present indications are for continued artificial aids to producers at the expense of the taxpayer; the continuation of exchange restrictions for an indefinite period; and a continuation and intensification of the present financial stringency, which under free competition would lead to a lower price level, but in the artificial conditions here prevailing is more likely to result in

The Battle of the Gold Standard

decreased consumption at existing prices, a further fall in production and imports, a rising level of unemployment, and a general intensification of the depression. In the long run, of course, if world conditions do not improve, something must break ; but whether it will be the gold standard or the arbitrarily fixed level of prices and wages it is as yet impossible to say.

Note.

Since the above was written, the Reserve Bank has issued a statement in which it announces that in view of the large surplus of visible exports (£17·9 millions for 1931, compared with £17·1 millions for 1930), and a considerable estimated reduction in the net total of invisible imports, it considers that this country can maintain the gold standard permanently, even in the absence of overseas loans.

Subsequently the Government announced the following increases in export subsidies : wool and mohair, from 10 per cent. to 25 per cent. ; fresh frozen meat, from 10 per cent. to 20 per cent. ; fresh fruit and eggs, from 15 per cent. to 20 per cent.

The cost of the additional subsidies is estimated to be in the neighbourhood of £1 million, and it is not yet clear how they will be financed.

These measures will have two mutually compensating effects on the position of the commercial banks. On the one hand the unlimited selling of exchange by the Reserve Bank to customers of the commercial banks will tend to cause these banks to require additional rediscount and other facilities from the Reserve Bank ; on the other, the disappearance of the " outside " market for exchange and the greater willingness of producers to export in consequence of the increased export subsidies should enable the commercial banks to purchase increased quantities of exchange, to sell exchange more freely themselves, and to reduce the necessity for their customers to have recourse to the Reserve Bank.

South Africa.

January 1932.

NEW ZEALAND

I. THE COALITION

IT was explained in our last article that the United and Reform parties eventually came together as the outcome of a series of sittings of a special economic committee, drawn from all parties in the House of Representatives, to consider the state of the country. It was never expected that Labour would enter into any coalition with the other parties, and the statements of Labour members of the special committee in the House on September 18 confirmed that opinion.

On the same day the Prime Minister, Mr. Forbes, declared that the information so far laid before the committee made it clear that action must be taken with regard to the finances of the Dominion, and that "as a result of conferences between representatives of the Opposition (Reform) and Government (United) parties in the House the two parties had agreed to form a coalition Government." The next day he definitely announced that he could not allow the committee to continue "unless an agreement was come to for the formation of a national Government and the postponement of the elections." The leader of the Reform party declared that he must consult his party, and the committee, for practical purposes, ceased to exist.

When the House met on September 22, Mr. Forbes announced the formation of a coalition Ministry consisting of ten members, five Reform and five United, to carry out the remedial measures required in the interests of the

The Coalition

country. The following were the members of the new Cabinet:

Right Hon. G. W. FORBES (U.), Prime Minister, Minister of Railways and Minister of External Affairs.

Right Hon. J. G. COATES (R.), Minister of Public Works, Minister of Transport and Minister in charge of unemployment.

Hon. E. A. RANSOM (U.), Minister of Lands.

Hon. W. D. STEWART (R.), Minister of Finance, Minister of Customs and Attorney-General.

Hon. SIR APIRANA NGATA (U.), Native Minister and Member of the Executive Council representing the native race.

Hon. J. A. YOUNG (R.), Minister of Health.

Hon. R. MASTERS, M.L.C. (U.), Minister of Education.

Hon. D. JONES (R.), Minister of Agriculture and of Mines.

Hon. J. G. COBBE (U.), Minister of Defence and of Justice.

Hon. A. HAMILTON (R.), Minister of Labour, Minister of Internal Affairs and Postmaster-General.

It was at once noticed that a preponderant representation had been given to the agrarian interest. For of the ten Ministers Messrs. Forbes, Coates, Ransom, Masters, Jones, Cobbe and Hamilton represented the country population, and Mr. Downie Stewart, who, after Mr. Forbes, was more directly responsible than any other man for the coalition, was the sole representative of the large towns. Another feature which at once challenged criticism was the assignment to Mr. Masters, a member of the nominated Legislative Council, of the portfolio of education. For many years it has been understood that the more important departments of State must be administered by Ministers holding seats in the popular chamber. The heavy expenditure on education had given rise to widespread complaint, and the idea that the pruning knife was to be applied by a Minister beyond the reach of popular disapproval created a certain nervousness. The only members of the Cabinet who were new to ministerial rank were Mr. Jones and Mr. Hamilton, two strong farmers' advocates from the South Island. Mr. Masters, however, though now for the first time in charge of a department, had been,

New Zealand

since June 1930, a member of the Executive without portfolio.

In a candid statement to the House, Mr. Coates declared that the Reform party believed that it was the duty of every member of the party to endeavour to assist the country in its hour of need. When Labour, impatient to appeal to the country, pressed him to say whether the elections were to be postponed, Mr. Forbes replied that that was a matter for the Government to consider. The House then adjourned for eleven days to enable the new team to formulate its policy.

The public welcomed the coalition with unbounded relief, even if there seemed to be some personalities in the new Cabinet who could not be expected to work well together. Hopes were, however, centred upon Mr. Downie Stewart, who resumed his old portfolio of Finance. His careful study of economics, his long experience of office, and the happy balance of his cross-bench mind seemed to supply a pivot upon which the new combination could work smoothly.

The shuffle of portfolios was not without its little heart-burnings. One incident which was not anticipated was the appointment of Sir James Parr to the leadership of the Legislative Council. The Prime Minister announced on October 9 that Mr. Masters had asked to be relieved of his duties as leader of the Council, so that he might devote his energies to the control of the Education Department. He would continue to be the ministerial representative in the Council, but Sir James Parr would be the leader of that chamber. It cannot be said that the public was prepared for this appointment either. It is true that the Prime Minister was only following precedent in appointing a retiring High Commissioner to the Legislative Council; but the Government had, for reasons of economy, refrained from filling vacancies in the Council, and Sir James had already taken steps to re-enter politics in the popular House by announcing his candidature for

The New Financial Policy

the Waikato seat in the Reform interest. His appointment to the Council was warmly resented by a section of private members, especially by some of the rank and file of the United party, many of whom had sacrificed their own positions to facilitate the coalition. The unrest which resulted on the back benches was probably encouraged at the time by the feeling of independence in the minds of private members due to the belief that the life of Parliament was to be extended by two years.

II. THE NEW FINANCIAL POLICY

ON October 6 the House settled down to a short period of serious business. The budget for the financial year had already been submitted in July, but the shifting economic conditions necessitated a new spasm of taxation. Mr. Downie Stewart's "supplementary financial statement," read before crowded galleries and an attentive House on October 6, was a startling revelation of the way in which the financial position was drifting, and of the impossibility of "pegging down" any estimates of revenue as reliable. The situation, moreover, was daily growing worse. Further shortfalls of revenue, together with inevitable additional expenditure on unemployment and other forms of relief, called for an additional £1,595,000 for the current year over and above the heavy provision already made in the main budget. The deficit for the year was now estimated at £8,445,000. Mr. Stewart first dealt with the proposal that New Zealand should seek relief by means of some such drastic readjustment as Australia had adopted, but the conversion of loans was not, he considered, a hopeful avenue to economy in our case, since the average interest paid on New Zealand's debt was only $4\frac{1}{2}$ per cent. Moreover, there were no large loans approaching maturity at the moment.

In the next place (he continued) any compulsory reduction of interest payable to bondholders would in reality mean default by

New Zealand

the State, and would seriously damage our credit. Whatever the position of private borrowers may be, the State is still able to pay its debts. In my opinion, it could not, and should not, plead inability to pay when the bondholder demands his interest. . . . Moreover, the State is not only a borrower, but a lender of many millions through the State Advances and other departments. If a concession were extracted from the bondholders the State would be expected to pass this concession on to its borrowers. But many of these borrowers have been financed out of loans raised overseas, and under no circumstances could the State claim relief in respect of overseas interest payments. . . . The State would lose more than it would gain, by some hundreds of thousands of pounds. It is well known that mortgage charges are perhaps the chief source of embarrassment to farmers and others . . . but an arbitrary reduction would drive capital away from this class of investment. This would not be in the interests of borrowers themselves. . . . Finally, as the State holds about one-third of the mortgages in the Dominion, a reduction in mortgage charges alone would seriously prejudice the budgetary position. It may be argued, however, that although the State is in no position to claim a reduction of its interest payments to its bondholders, nevertheless these bondholders enjoy a secure income, and should be called upon to share in the sacrifices which the whole community is being forced to bear. I agree with the view. But the most effective way to see that the holders of Government bonds bear their share of the general burden is through taxation. If taxation is fairly and justly applied there is no breach of contract between the Government and its creditors.

Important proposals were put forward for the relief of the farming community. Without altogether turning a cold shoulder on the derating of farm lands, the Government proposed to hasten the inquiry by a Royal Commission into local government generally and in the meantime to devote to the relief of rates on farm lands a sum of £250,000, which will be available this year from the Main Highways Fund, intended for normal road construction. Acting upon the recommendation of the Royal Commission on the Land and Income Tax in 1924, the Government proposed to abolish the old graduated land tax, retaining, however, the flat rate of one penny in the pound on the unimproved value of land. "To a considerable extent," it was pointed out, "the burden will fall collectively on

The New Financial Policy

the same shoulders as formerly paid the graduated land tax, although the individual incidence will be different. All income will then be treated alike." This would involve a net burden of £320,000.

As a further measure of relief to farmers the Government accepted the view put by several witnesses before the Economic Committee :

Maintenance of production can be greatly stimulated by fertilisers. It is found that there has been an alarming falling-off in the use of these manures, brought about, no doubt, by the efforts of the farmers to cut down expenses. Under these circumstances it is essential that the prices of fertilisers should be reduced. For this purpose the Government has arranged to share a substantial portion of the cost of the raw phosphate rock. The cost to the Government for this year is estimated at approximately £100,000.

The Minister left to the last a form of assistance which farmers' organisations have for years past declared to be the most important of all, namely, relief from the burdens imposed by the Industrial Conciliation and Arbitration Act.

It is considered (he said) that many conditions and restrictions now in operation in Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference, the chief feature of which is known as compulsory conciliation and voluntary arbitration.

This proposal, to which we shall return on a later page, was most stubbornly fought by Labour at every point and had not been accepted when Parliament was prorogued.

Turning to the question of ways and means, Mr. Stewart said that the reductions in expenditure and in the salaries of the civil service made by the Cabinet Economy Committee at the beginning of the financial year, and by the Finance Act in the early session of Parliament, were estimated at

New Zealand

£2,000,000. Further economies to the extent of £1,000,000 a year would, however, be required. They would be effected mainly by a curtailment of services.

Towards the balance I hope (continued the Minister) to obtain £350,000 by drawing still further upon reserves. A large part of the accumulated surpluses of the Consolidated Fund from the war and post-war years was invested in discharged-soldier-settlement mortgages, repayable by instalments over a long period. The £350,000 represents the repayments of principal by the mortgagors that it is estimated will be available during this financial year. . . . As regards customs taxation, the tariff rates are already so high that the law of diminishing returns is operating over many of the items. . . . For the rest I am driven to review the position and the possibilities of further direct taxation through the income tax. . . . I take it that these taxpayers would prefer to shoulder further burdens rather than see reductions made in old-age pensions, soldiers' pensions, and pensions for the blind. They would equally resent any suggestion that the State should default in its interest payments. A reduction in pensions may at any time become an imperative necessity if the world's price-levels remain low, but for the purpose of my present computations I have laid this on one side.

As regards the New Zealand company tax, Mr. Stewart reminded the House that it was the heaviest in the British Empire, if not in the world; and as many of the companies were engaged in financing primary industries it was not proposed to tax them further. Individual taxpayers had already had their burdens increased by the main budget from 10 to 30 per cent., but "the receiver of gilt-edged income is called upon in these times to bear his share of the burden. He is more concerned than anyone else to see that the State remains solvent." The Government proposals were :

(1) To impose a special emergency tax on the unearned income of individuals equal to one-third of the income tax payable on such unearned income, and to eliminate the 10 per cent. deduction at present allowed on earned incomes up to £2,000.

(2) To include in the assessments (but only for the purpose of fixing the rate and the general exemption) all tax-free income and income taxed at the source, and to remove the present discrimination

The New Financial Policy

in favour of income derived from certain local-body and company debentures.

(3) To impose a special flat-rate tax of 4d. in the pound on incomes of individuals, after allowing a general exemption of £500.

The effect of these alterations with the abolition of the graduated land tax would be a net additional yield of about £230,000. It was not proposed to provide any money this year for State advances, but repayments would be available for additional advances. The additional loan capital for public works would be restricted to £4,750,000; so that in these two departments together there would be a reduction of 50 per cent. in the amount borrowed as compared with the last financial year. In conclusion the Minister confessed frankly that

the best way to cope with our problems while conditions are changing so rapidly would be by a financial dictatorship. As that is not politically possible, the next best course is to make provision to meet the position as we find it now, and review it again before the end of the financial year, so that if necessary and if practicable further steps may be taken to check any further drift and maintain stability in our public finances.

The House forthwith adopted the resolutions increasing the duties on tobacco by 8d. per pound and on motor spirit by 2d. per gallon. Incidentally, a strong demand was made for an inquiry into the retail price of petrol in New Zealand, now standing at about 2s. per gallon, and the Highways Finance Committee declared that it was not justified by wholesale prices oversea.

The concessions made to the country as compared with the urban interest incurred the censure of a section of the press, but the decision not to reduce interest rates on mortgages, etc., met with general approval in the newspapers.

On October 7, the day after Mr. Stewart's statement, a battle royal developed over the question of the cessation of railway construction. When the United party came into office at the end of 1928 it was pledged to a vigorous construction policy, and in spite of the recent change in the

New Zealand

economic position of the railways, and of a strong body of public opinion which is against sinking further large sums in railway works, the Ward Government pushed on vigorously with construction. After Sir Joseph Ward's resignation his successor, Mr. Forbes, felt himself bound by the election promises of 1928, but the deepening depression in 1930 compelled him to view the matter from a new angle, and when the Railway Board was set up in April 1931,* one of its first duties was to consider the advisability of going on with these railways. Its report, which was presented to Parliament on September 10, unequivocally condemned the whole of the new lines. The most important of them was the span between Parnassus and Wharanui, the only gap remaining in the South Island Main Trunk connection between Invercargill and Picton. At present the ferry service between the islands runs from Lyttelton in the South Island to Wellington in the North, a distance of about 200 miles. As the crossing is always effected by night there is no loss of time, and the Railway Board took the view of most business people that, even if the line were completed to the extreme northern point of the South Island, Picton would not supersede Lyttelton as the ferry port. Moreover, the Board believed that the country through which the extension would pass was chiefly pastoral land unsuitable for closer settlement, and that the work was not justified on the basis of either the immediate or the more remote prospects. £415,239 has already been spent on this gap and £2,341,761 would be required to complete it. The Board condemned with equal emphasis the Gisborne-Napier, Waiotira-Dargaville and Okaihau-Rangiahua lines in the North Island and the Kawatiri-Inangahua and Westport-Inangahua lines in the South Island. In no case did the revenue prospects warrant the expenditure, and even the fear of adding to the army of unemployed would not justify continuing the work. To complete all these lines would have cost £5,921,924.

* See THE ROUND TABLE, No. 84, September 1931, p. 926.

The New Financial Policy

It was not until October 7 that the House was able to discuss this report. In the meantime local interests had declared their objections to it, and in the Parnassus and Wharanui district affected by the scheme for the extension of the South Island Main Trunk a strong movement was organised to influence the decision of Parliament. A monster deputation representing local bodies in the northern part of the South Island—especially in Marlborough province—travelled to Wellington by special steamer, and, headed by a pipe band, marched to Parliament House to interview the members of the legislature. Later in the day, at Mr. Forbes's instance, the Railway Board's report was made a matter of urgency, and he himself moved its adoption.

The position to-day (he pointed out—by way, as it were, of excuse for his previous loyalty to Sir Joseph Ward's policy) is different from that of 1928. A great deal of water has flowed under the bridges since that time. In 1928 we didn't have the world depression. The financial position of this country is right down to the limit, and unless we face the position the end may be disastrous. If the Government went on to the market to raise money for lines which had been condemned by the Railway Board it would have no chance of getting it. They had to face the facts of the present; it was no use talking of the past.

The Labour party opposed the Government's policy principally on the ground of the hardship it involved to the men who would be thrown out of employment. A few other members voted with them on purely local grounds, but the Government carried the day by a steady majority of about 40 votes to 24 and the railway extensions were abandoned.

The two main taxing Bills (the Land and Income Tax Amendment Bill and the Land and Income Tax Annual Bill) were dealt with as matters of urgency on October 14. By the former of these measures the level of exemption from income tax is reduced from £300 to £260, subject to further reductions which remove the exemption altogether in the case of incomes of £800. Another important innovation in this Bill brought tax free debentures, a considerable quan-

New Zealand

tity of which were issued during the war, into the computation of income for taxing purposes. Hitherto these securities have been left out of the assessment altogether. Mr. Stewart held the view that the State had contracted not to tax these bonds, and that it would be a breach of contract to impose a direct tax upon them ; but there was no breach of contract, he said, in bringing them in for the purpose of ascertaining the rate at which a taxpayer should be taxed on the part of his income which was taxable. In the case of the other Bill there was a division on the proposal to abolish the graduated land tax, but it was carried by 33 votes to 26, a few Independent and United members voting with Labour.

Of the other measures required to implement the budgetary proposals the most important were the customs resolutions adopted on November 3. Certain changes were made in the duties on tobacco and cigarettes with the idea of protecting the New Zealand industry. The rates on cigarettes made in New Zealand are now 25s. per 1,000 and 10s. per lb., as compared with 33s. 9d. per 1,000, and 13s. 9d. per lb. on the imported article. The reduction of the duty on wheat and flour in accordance with the Government's promise to diminish the excessive protection given to the wheat-growers of Canterbury was authorised ; but members complained that a tax of 200 per cent. on the value was much more than the country could afford in times of reduced income.*

When the Customs Acts Amendment Act was introduced on November 5 Mr. Stewart explained that the increased revenue, amounting to £1,150,000, expected from the amendments in the tariff was composed as follows :

	£		£
Tea	92,000	Chinaware, etc. ..	30,000
Sugar	210,000	Floor coverings, etc.	18,500
Tobacco	240,000	Motor spirit ..	180,000
Apparel and hosiery	86,000	Other items ..	71,000
Silks, etc.	42,500	Primage	180,000

* The duty hitherto has fluctuated about 1s. 6d. per bushel. The prices to be paid to farmers for the 1931-32 season's wheat crop were announced on

The New Financial Policy

The excise duty on beer raised the total to £1,300,000. In connection with the customs it should be mentioned that Mr. Forbes referred during the session to the negotiations with Canada for a reciprocal agreement to end the tariff war that has developed in the last two years.* After the election it was decided that Mr. Stewart, in his capacity of Minister of Customs, should carry on the negotiations, and he left for Honolulu on December 15 to confer there with the Canadian Minister.†

During the latter part of the session the Labour party continued to press for an assurance about the general election, which Mr. Forbes as steadily declined to give. At this time it was the general opinion in the country, founded on remarks made by Mr. Forbes, that there would be an extension of the life of the existing Parliament. The Labour party was, of course, able to base its objection on constitutional grounds; but there is no doubt that it also entertained hopes of substantial success at the polls. Nor were these hopes unreasonable. Under the stress of economic forces, measures were being considered almost every day which menaced one or other of the privileges gained for Labour after hard fighting in better times. At every point the party stubbornly resisted anything in the nature of a reduction of the standard of living. The salary cuts in the civil service it opposed tooth and nail; and at every whisper of a threat to the structure of the arbitration system it rose in arms. Nor have such threats been wanting. Reference has already been made to the repeated demands of farmers' organisations that the farming industry should be entirely exempt from the provisions of the wage-fixing machinery of the Arbitration Court.

December 21 as follows: 4s. 8½d. a bushel f.o.b. Lyttelton, Timaru and Oamaru for f.a.q. Tuscan; 4s. 10½d. for Hunters, and 5s. 0½d. for Pearl. These prices represent a drop in value, as compared with the previous season, of 20 per cent. The millers are allowing 10s. per ton reduction on flour to assist in reducing the price of bread.

* See THE ROUND TABLE, No. 84, September 1931, p. 938.

† It is reported that an arrangement has been reached, but, at the time of writing, it has not come before Parliament for ratification in either Canada or New Zealand, and no details have been made public.

New Zealand

In a prolonged period of prosperity the country was able to stand the additional cost of such restrictions, but depression is a severer test, and a gradually growing section of the public has been inclined to look askance at the system and to wonder whether things would not be better if it were amended. It has, at any rate, been obvious that in the early stages of the present depression many men might have been kept employed for a longer period if it had been possible to reduce wages so as to make them correspond with the reduced returns. The National Industrial Conference in 1928 exhaustively discussed the arbitration system. On that occasion the employers and farmers put forward a proposal that conciliation should be compulsory but arbitration only optional. Labour, of course, rejected this departure from the principle of the original Act. When, therefore, it saw Mr. Jones, an inveterate opponent of the arbitration system, in the Government and this same suggestion of optional arbitration in the supplementary budget, and therefore part of the Government's policy, it felt that the system was indeed in jeopardy. Other factors also tended to strengthen Labour's belief that it would find plenty of support in the country. There was, for instance, the suggestion that pensions might have to be revised. Many of the civil servants, too, a powerful body, were supposed to be ill-disposed to the Government on account of the salary cuts. Then there were the inhabitants of the towns, who as a whole had received less consideration than those of the country; and in all classes of the community there were people who had had heavy burdens of taxation imposed upon them. Labour lost no opportunity, therefore, of pressing its demand that Parliament should be allowed to expire as usual at the end of November.*

* A want of confidence motion proposed by the Labour party leader on October 14, and an amendment with which the Independents intervened condemning the Government more specifically, were defeated by 46 votes to 23 and 46 to 25 respectively.

The General Election

III. THE GENERAL ELECTION

ON October 23 Mr. Forbes at last made a definite statement about the New Zealand elections :

The Coalition (he said) had been formed for a definite period and for a definite purpose, namely, to put measures into effect to enable the country to balance its national budget and to put into operation a policy that would enable the Dominion to surmount the economic difficulties with which it is at present confronted. That could obviously be achieved only by a Government with a stable majority in Parliament, reinforced by a solid backing of the electors of the Dominion ; and therefore the Government had decided to seek the approval of the people in respect of what had been done and to give them an opportunity of extending to the Government the fullest measure of confidence.

Both the leaders of the Coalition appealed to the electors to give it a definite mandate. Though no reference had been made during the session to the British elections, it was generally believed that the result was bound to have a considerable influence on a general election in New Zealand. But the very emphatic verdict that the British electors subsequently gave could not at this time have been anticipated, and the Coalition leaders cannot therefore be held guilty of the charge, sometimes levelled against them, of making party capital out of it. Indeed they took the risk against the advice of at least one shrewd independent organ, and in spite of conditions in New Zealand which obviously weighted the issue against them. The following is a typical comment on their decision :

We cannot (said the *Evening Post*—Independent—on October 24), welcome the decision, but we recognise that it is at least not so fraught with danger as it might have been had the suicidal course of a triangular contest been taken. We are still of opinion that it would have been more courageous and better for the country had the Government chosen to postpone the general election and thus avoid the grave check which must be given to the growth of confidence.

New Zealand

"The *Auckland Star* (Liberal) spoke in much the same sense.

Parliament was prorogued on November 11, and on the same day Mr. Forbes announced that the election would take place on December 2. Normally, there would have been a redistribution of seats following on the quinquennial census, which should have taken place on April 1, 1931. There would also have been a licensing poll at the same time as the electoral poll, but this too was abandoned for a similar reason, economy. The campaign was opened by Mr. Holland's speech at Wellington on November 4, outlining the policy of the Labour party. In it he developed further his scheme for the mobilisation of credit and the creation of a State bank, declaring that

under existing banking laws the Labour party could raise sufficient credit for immediate industrial purposes employing methods somewhat similar to those adopted during the war. . . . The Labour party proposed now to use the national credit for the purpose of economic reconstruction and rehabilitation. . . . A sum of £25,000,000 spread over a three years' period would be sufficient to put the Dominion once again on its feet.

This estimate of £25,000,000 was freely quoted by Coalition speakers as the counterpart of the £70,000,000 which Sir Joseph Ward dangled before the eyes of the electors in the 1928 campaign.

To avoid vote-splitting the Coalition parties supported the sitting member in constituencies held either by a Reform or a United member in the last Parliament, and agreed upon a single candidate to contest other seats. Generally speaking, this agreement was honourably observed, but there were cases in which the candidates previously adopted could not restrain their ambition and insisted on going to the polls. Several seats were in this way lost to the Coalition.

A manifesto was issued by the Coalition leaders pointing out that the income of the people of New Zealand had fallen in the last two years by £30,000,000. The electors had shown their determination to face their crisis

The General Election

with characteristic courage and resolution, but the situation was changing so rapidly that the Government of New Zealand must be given a free hand to meet new conditions as they arose. Their first purpose would be to maintain the national finances on a sound basis. Though taxation was heavy there was no alternative but national bankruptcy. With 50,000 unemployed they were determined to make all relief work productive ; but the real task was to absorb the unemployed in normal industry. Various measures of relief had already been taken to help farmers. New markets would be explored, the quality of produce improved, and every opportunity taken to promote reciprocal tariffs and develop Empire trade. As the price of land fell, settlement would be vigorously pushed on with government assistance, and workers in towns encouraged to augment their earnings on small holdings.

The manifesto of the Labour party declared that the decision would be a vital one between the drift, gloom and depression, for which the present Government was responsible, and organisation, development and employment. With proper organisation no family need lose its home and no citizen go short. The Labour party proposed, under the existing banking laws, to raise sufficient credit in New Zealand to develop the national resources by a bold policy. Taxation could not go on indefinitely, and it was impossible to tax one section to keep the rest working part time. The national income must be increased, and credit was the first essential. A "planned production of national requirements" and the "co-ordination of all government departments associated with primary production" were foreshadowed. Labour intended to promote reciprocal trade with Great Britain and other countries, to explore overseas markets, and to endeavour to prevent undue price fluctuation. It would further develop industries such as coal carbonising, flax dressing, and motor car assembling, reorganise the boot, clothing and iron industries, co-ordinate transport facilities and reduce interest and rent

New Zealand

charges. Finally the party would reintroduce the graduated land tax on large holdings, maintain the arbitration system, and leave intact the existing system of education, hospitals and pensions.

An unpleasant feature of the campaign was the unusual amount of rowdiness at Coalition meetings, though the Labour leaders time and again protested against it, and dissociated themselves from any interference with freedom of speech. When the nominations closed on November 20 there were 185 candidates for 72 seats, as compared with 212 in 1928, but four seats (including those of Mr. Cobbe and Mr. Ransom, "United" members of the Coalition Ministry) were uncontested. As the campaign developed Coalition candidates made free use of the emphatic verdict given by the British electors on the record of the Labour Government, and Mr. Coates claimed that Mr. Snowden's words applied equally well to the situation in New Zealand: "I do not exaggerate (he declared) when I say that the real issue is between prosperity and ruin." Mr. Stewart, too, speaking at Dunedin on November 23, said:

I have never made a statement with a graver sense of responsibility than one I am now about to make. It is my deliberate conviction, based on intimate knowledge, that if the policy put before the electors by the Labour party is given effect to New Zealand will, without question, be faced with national default, repudiation and insolvency. Our resources of revenue are drying up faster than our expenses can be curtailed. The only way by which this drift in our national finances can be checked is by the utmost united effort of the whole nation. If an attempt is made to put into operation the Labour party's policy the working classes of the Dominion will be plunged into unspeakable misery compared with which their present lot—hard as it is—is tolerable.

Although, as we have seen, the revision of the arbitration system was proposed by the Government in their supplementary budget, it found no place in the Coalition manifesto. The Prime Minister indeed denied, at one of his meetings, that there was any intention of abolishing arbitration, but he declared that some reform was impera-

The General Election

tive. "Industry is," he asserted, "in a strait jacket, thanks to the harassing awards of the Court, and the Government will see that they are done away with."

Mr. D. Jones, too, claimed that

the Government's policy is to provide for compulsory conciliation and voluntary arbitration. A very great number of awards are arrived at to-day under conciliation. We believe that conciliation should be compulsory and arbitration voluntary. We suggest that people of moderate views will meet and that satisfactory agreements will be reached in a great bulk of trades.

While Coalition speakers referred exultantly to the British election, Mr. Holland, the leader of the Labour party, appealed again and again to the traditions of the old Liberal party in New Zealand at the time when Ballance came into power.

Polling was lighter than at the previous election. In the aggregate 82.6 per cent. of the total number of electors on the rolls cast valid votes, as compared with 86.9 per cent. in 1928. Undoubtedly the main reason for the lighter poll was the absence of the licensing issue, but another factor was, no doubt, the reduced activity of the Reform and United party organisations as a natural outcome of the coalition.

The results of the election were as follows :

				1931	New Parliament.
	<i>Government.</i>				
Reform	..	..	..	28	29
United	..	..	..	24	21
Independent	..	..	..	2	1
				—54	—51
	<i>Opposition.</i>				
Labour	..	..	..	20	24
Independent	..	..	..	5	4
Country party	..	..	..	1	1
				—26	—29

As a result of the election Mr. Forbes has now a dependable majority pledged to support the coalition under his

New Zealand

leadership instead of a mixed team containing elements which had not been elected to support him.

While the Labour party's anticipations of heavy gains were not realised, the steady advance of the party since it emerged less than 25 years ago from the Liberal and Labour parties is very marked. Starting with only one member in the Parliament of 1908 it has steadily gained ground until now it commands 24 seats, only two short of a third of the House.

There were no great surprises. One of the Ministers, Mr. D. Jones, lost his seat, Mid Canterbury, to a popular candidate—a United Coalitionist—who had opposed him on two previous occasions, while at Wairarapa Mr. A. D. McLeod, formerly Minister of Lands in the Coates Government, insisted on standing against the United coalitionist member and defeated him. The four Maori members, who are usually evenly divided between the Reform and United parties, are all supporters of the Coalition in the New Parliament.

New Zealand.

December 24, 1931.

